

Can the satellite
radio giant go on
without Howard Stern?
Inside the galaxy's rowdiest
media negotiation
p.44

Sirius, We Have A Problem





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***“I wouldn’t say there’s
anything fashionable
about them at all.”***

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**“Insurance
has just really
opened doors
for me”**

p34

**“People do not
change when they
see the light.
They change when
they feel the heat”**

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**“This is what
David Axelrod
referred to as a
pimple on the ass
of progress”**

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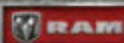
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¹ It should be noted, in addition to the above, that a small percentage of the subjects who were assigned to the treatment of small commercial fish (24 out of 71 subjects) began to experience mild diarrhoea after 10 to 15 days of the trial, caused by eating the small fish. This was not seen in the subjects who ate the frozen fish. It is not clear whether this is an unexplained phenomenon of FCS, or if it is due to the small size of the fish.

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Corrections & Clarifications

"Big Corn Butters Up the 2016 Hopefuls" (Politics/Policy, March 9-March 15, 2015) used the pronoun "she" in a quote from Dee Davis, who is a man. ① "Measles and Mumps and Pertussis—Oh, My!" (Politics/Policy, Feb. 16-Feb. 22) reported that West Virginia has the second-highest vaccination rate in the U.S.; it ranks 16th. ② "Finally, Good News for Workers at the Bottom" (Global Economics, Feb. 16-Feb. 22) incorrectly stated that U.S. employment of the disabled rose 20 percent in January from a year earlier. The correct figure is 12 percent.

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The Elephants Take A Bow

By Howard Chua-Eoan

6

Ringling Brothers recognized that the country's mood shift meant that the circus couldn't do business as usual

Circuses and elephants have been inseparable in the American imagination for nearly 150 years. Together they contributed a word to the English language—jumbo, now synonymous with anything big, potentially unwieldy, perhaps dangerous, but with some possibly gigantic payoff. Jumbo was an enormous African elephant that P.T. Barnum bought from the London Zoo in 1882 and shipped to the U.S. to become the star of his circus. America became obsessed with Jumbo, a behemoth who was paraded out for audiences willing to pay for the amusement. After that, elephants became fixtures of any respectable American circus. Although Jumbo died in an 1885 railway accident, we continue to see his shadow in jumbo jets, Jumbotrons, and jumbo mortgages.

On Mar. 5, the historic association between circus and elephant was abrogated when the Feld family, which owns Ringling Bros. and Barnum & Bailey circus—the century-old merger of two rivals—announced that it would phase out its 13 performing Asiatic elephants by the beginning of 2018. They will join 28 pachyderms already resident at the Feld family-owned Center for Elephant Conservation in Florida. The Felds, who bought the circus in 1967 before selling it to Mattel and buying it back in 1982, had withstood more than a decade of legal challenges from animal rights groups that leveled charges of cruelty against the circus and its trainers. Just last year, Feld Entertainment won a \$15.75 million settlement with humane societies in a case involving a former elephant trainer described by a federal court as being “essentially a paid plaintiff” against the circus.

Those legal wins weren't enough to assure final victory. One of my first assignments as a journalist in New York City in the 1980s was to cover the amazing amble that the Ringling Bros. elephants took whenever they came to town: The public-relations stunt saw trainers escorting the huge animals from Madison Square Garden up the avenues of Manhattan to Central Park, where they'd pose for news photographers. Even though the skyscrapers towered over them, the elephants were the masters of the city. That appearance, though, was a deception. They were not even the masters of themselves.

What more and more people saw as the years went by—and as I jotted down in my notes that day—was the use of bullhooks. To keep the elephants marching in single file up to the park, trainers whacked them with the ugly metal talons. No elephant cried out when the bullhook was used, and at the time I wondered how much of the claw could actually get under the elephants'



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thick skin. But it clearly kept them in line.

The Greatest Show on Earth was effectively worn down by a relatively low-key but tenacious campaign led in part by People for the Ethical Treatment of Animals, which focused on getting city councils and municipalities to ban not just performing elephants but also the use of bullhooks—as Los Angeles and Oakland in California and Palm Beach and Miami Beach Counties in Florida did, all large markets. Furthermore, pieces in newspapers such as the *Washington Post* described how newborn elephants were allegedly maltreated. The fiction of human-animal harmony frittered away.

Explaining Feld's decision on Mar. 5, spokesman Stephen Payne said the country had undergone a “mood shift” regarding the ethics of performing animals. The marketplace had changed as a result of transformed public opinion, and it was no longer sound business practice to go on with the show, at least as originally envisioned. (Feld, which is privately held, will not divulge the financial effect the controversy has had on its operations.)



SeaWorld still attacks critics as extremists and radicals even as more Americans accept their ideas

orca, Hargrove says, “alien abduction.”

SeaWorld is already suffering repercussions for its refusal to change. It has been sideswiped by *Blackfish*, a 2013 documentary about the February 2010 killing of a SeaWorld trainer by a troubled orca. The film started getting traction at about the time of SeaWorld’s IPO. The company’s market value eroded as more people saw depictions of the living conditions of the orcas and the heartrending separation of calves from their mothers. *Blackfish* was broadcast several times by CNN and was one of the most popular programs on that network in 2013 and 2014. SeaWorld continues to blame its predicament on “extreme animal rights activists”—a term it has used for decades. However, the ad hominem use of the word “extreme” to attack critics is less and less effective as more and more Americans share the tenets held by the activists.

Mood shifts in the market, encouraged by changing popular tastes as well as activism, may be the most effective way of forcing permanent corporate reforms, as it has in the palm oil industry (page 17). Ringling Bros. will still reap benefits in the next three years as audiences rush to see elephants performing before they head to Florida. It also won’t be giving up on its other four-legged performers soon. While the elephants were the showy centerpiece of the circus, says Feld spokesman Payne, other acts now provide much of the spectacle, including lions and tigers and camels. Animal advocates have more work to do.

Nevertheless, public demand for more enlightened treatment of captive animals is bound to grow stronger. With Feld as a model, SeaWorld has an opportunity to ease out of its difficulties and transform itself into the organization it has always claimed to be.

SeaWorld’s first orca was named Shamu. Even after she died in 1971, possibly of a bacterial infection, every killer whale that starred in the spectacles was called Shamu, creating a deathless brand. Shamu hasn’t become an adjective like Jumbo. But if SeaWorld doesn’t reform, it might popularize another, less flattering word. It will be known as the company that didn’t know what to do after it was blackfished. ③

Chua-Eoan is co-author of Beneath the Surface, which will be published by Palgrave MacMillan this month.

To accommodate the mood shift, Feld has wrapped itself in the banners of ecotourism, explaining how its conservation center, established in 1995, may eventually allow visitors to see how well it cares for pachyderms in retirement.

That raises questions about the other great mammal performing in captivity today: the killer whale. SeaWorld, which owns three immense marine parks in the U.S. that feature orcas, has also suffered from the country’s philosophical shift. After a splashy initial public offering in April 2013, SeaWorld Entertainment’s stock shot up to almost \$39. By Mar. 11, 2015, however, it was below \$19.

SeaWorld continues to hold the line against critics and animal advocates, insisting that it’s in the best position to provide the medical care, sustenance, and quarters for the 30 killer whales it owns. Unlike with elephants, the public can’t easily spot the orca equivalent of bullhooks. But inhumane conditions do exist, as John Hargrove recounts in *Beneath the Surface: Killer Whales, SeaWorld, and the Truth Beyond Blackfish*, a memoir of his

two decades training orcas that I co-wrote. Among many examples: whales deprived of food for not being up to snuff; the orca equivalent of bulimia; potentially fatal dental problems caused by the claustrophobic nature of captivity. In SeaWorld, whales can’t behave as they do in the ocean—where they are in constant motion, even in their version of sleep. SeaWorld trains them to rest motionless.

Hargrove says SeaWorld’s orcas are victims of a monstrous strategy to maximize profits. The company uses the rigors of behavioral science to ensure seamless, audience-pleasing performances, then combines that with an artificial insemination program that is hellishly efficient. Everything is camouflaged in SeaWorld’s self-proclaimed mission to teach customers about conservation. In truth, what’s being maintained is the profit potential of SeaWorld’s stock of calves and frozen sperm, both produced with assembly-line efficiency. Each of the company’s orcas is estimated to be worth up to \$15 million. Asked to describe how a human being might feel if he or she were a SeaWorld

The U.S. Can't Lead From Behind in Iraq

Iran's active role in the fight against Islamic State is worrisome



As the U.S. stands aside while Iran-backed militiamen lead the fight to recapture the Iraqi town of Tikrit, it's hard to know if it would be worse for them to win this battle against Islamic State or to lose. If the militias do retake Tikrit and then victimize Sunnis as they have done in other areas, it will become even harder to persuade Sunni Arabs to rise up against Islamic State or to hold Iraq's fragments together. Even if the militias behave, their victory may lead to the "Hezbollah-ization" of Iraq, in which Iran's militia allies take over the nation's security services and central government, much as Hezbollah did in Lebanon.

No wonder U.S. General Martin Dempsey, chairman of the Joint Chiefs of Staff, flew to Baghdad to find out what Iraqi Prime Minister Haider al-Abadi is thinking. Dempsey said: "The important thing about this operation in Tikrit in my view is less about how the military aspect of it goes and more about what follows."

There's no neat solution here or perfect outcome for Iraq. The U.S. strategy of rebuilding an integrated Iraqi army of Shiites, Sunnis, and Kurds—and bringing sectarian militias under a joint command—is the best available. Unfortunately, the opposite is happening: Shiite militias, under the guidance of the Iranian Revolutionary Guard Corps, control the Iraqi army.

To realize its vision of a diverse Iraqi military, the U.S. will have to demonstrate that it is Iraq's more effective security partner. That can't mean pouring troops back in, which the White House ruled out in the draft Authorization for Use of Military Force it submitted to Congress in February.

The U.S. doesn't need to send a lot of troops because Iran, too, has been reluctant to deploy large numbers to Iraq. Iran is already bleeding cash and manpower fighting Syrian President Bashar al-Assad's war for him. Iran might prefer to see a Shiite-dominated Iraq, but it also wants to keep the country whole.

So, the U.S. just needs to carry out its strategy more decisively. For example, it's armed the Kurds but not with the heavy weapons they need to take on Islamic State. The Kurds, who have taken on more casualties, may then hesitate to cooperate when asked to drive Islamic State out of Mosul, a non-Kurdish town.

The U.S. has also been reluctant to deploy its 3,000 military advisers to work with Iraqi fighters. Iran is thought to have fewer personnel in Iraq, and yet those present are highly visible at the front and have been instrumental in organizing the assault on Tikrit. Dempsey says he's unimpressed by the chaotic result, but Iraq's Shiites are impressed by Iran's commitment.

At the moment, both the U.S. and Iran are focused on their common enemy, Islamic State. But as soon as that threat recedes, their contest for control of Iraq will flare again. In this competition, the U.S. has significant military and economic advantages, as well as one that's geographic: Iraq's Arab Shiites are as wary of their Persian neighbors as they are reliant on them. But the U.S. will have to push harder to exploit its advantages.

Let China Make A Soft Landing

Monetary easing is crucial for the People's Republic—and the rest of us

China's second interest-rate cut in three months has raised fears that the government is trying to devalue the yuan to give its exports an unfair boost—an understandable suspicion, given the country's history of manipulating currency. This time, though, lower rates and a moderately weaker yuan make sense not just for China but for the rest of the world.

Deflationary pressures are rising, which argues for cautious monetary easing. Chinese leaders, to their credit, are struggling to rein in the vast shadow-banking sector and murky local-government financing vehicles: Cutting interest rates is a better way to do it.

Traditional exchange-rate manipulation involves resisting upward pressure on the currency to maximize exports—precisely what China did for many years as its economy grew into a manufacturing juggernaut. In this case, Chinese leaders are merely accepting downward pressure on the currency resulting from a monetary easing that's justified on its own terms.

China is well aware of the risks. An abrupt devaluation would inflame critics in the U.S. who are already pushing to include provisions against currency manipulation in the Trans-Pacific Partnership and other trade deals. Chinese companies, too, owe more dollar-denominated debt than is commonly realized—about \$1.1 trillion, according to the Bank for International Settlements. China remains a net lender but no one knows how many of its companies could default if the yuan plummets.

The threat of an uncontrolled currency depreciation could also spur capital flight. China registered a \$91 billion capital-account deficit in the fourth quarter of 2014, the third in a row and the largest ever. The prospect of a big devaluation would accelerate the outflow, undermining China's banks and adding to the risk of defaults.

Chinese leaders, again to their credit, seem resigned to slower growth. The rest of the world no less than China needs this soft landing to be smooth. For now, that means cautious monetary easing and tolerance of the exchange-rate consequences. **B**

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Seven months ago the giant tanks in Cushing, Okla., the largest crude oil storage hub in North America, were three-quarters empty. After spending the last few years brimming with light, sweet crude unlocked by the shale drilling revolution, the tanks held just less than 18 million barrels by late July, down from a high of 52 million in early 2013. New pipelines to refineries along the Gulf Coast had drained Cushing of more than 30 million barrels in less than a year.

As quickly as it emptied out, Cushing has filled back up again. Since October, the amount of oil stored there has almost tripled, to more than 51 million barrels. As oil prices have crashed, from more than \$100 a barrel last summer to below \$50 now, big trading companies are storing their crude in hopes of selling it for higher prices down the road. With U.S. production continuing to expand, that's led to the fastest increase in U.S. oil inventories on record. For most of this year, the U.S. has added almost 1 million barrels a day to its stash of crude supplies. As of March 11, nationwide stocks were at 449 million barrels, by far the most ever.

Not only are the tanks at Cushing filling up, so are those across much of the U.S. Facilities in the Midwest are about 70 percent full, while the East Coast is at about 85 percent capacity. This has some analysts beginning to wonder if the U.S. has enough room to store all its oil. Ed Morse, the global head of commodities research at Citigroup, raised that concern on Feb. 23 at an oil symposium hosted by the Council on Foreign Relations in New York. "The fact of the matter is, we're running out of storage capacity in the U.S.," he said.

If oil supplies do overwhelm the ability to store them, the U.S. will likely cut back on imports and finally slow down the pace of its own production, since there won't be anywhere to put excess supply. Prices could also fall, perhaps by a lot. Morse and his team of analysts at Citigroup have predicted

Too Much Oil and No Place to Put It

- Overflowing storage tanks could lead to another drop in prices
- "Not everyone who calls is going to get space"

"These producers
have kept
chugging away
when they should
have been
shutting down"

that sometime this spring, as tanks reach their limits, oil prices will again nosedive, potentially all the way to \$20 a barrel. With no place to store crude, producers and trading companies would likely have to sell their oil to refineries at discounted prices, which could finally persuade producers to stop pumping.

Oil investors appear to be coming around to the notion that a lack of storage capacity could lead to another price crash. In the futures market, hedge funds have spent the past few weeks cutting their bets that oil prices will rise. Instead, they've built up a record short position, increasing their wagers that prices will fall. During a March 11 interview on CNBC, Goldman Sachs President Gary Cohn said he's concerned the U.S. is running out of storage, particularly as refineries enter their seasonal maintenance period, to prepare for the summer driving season. Around this time they usually cut the amount of crude they buy. Cohn said prices could go as low as \$30 a barrel.

The math on this can be a bit tricky. The U.S. Department of Energy measures oil storage capacity twice a year, once in the spring and again in the fall. As of September 2014, the U.S. had 521 million barrels of working capacity, up from 500 million in 2013. That includes the space inside tank farms and on-site at refineries. It doesn't, however, include the amount of oil that can be stored in pipelines or storage tanks near oil wells; nor does it include the amount of capacity in tankers off the coast, in transit from Alaska, or on trains. Of the 449 million barrels of total crude stocks, about 327 million are stored in tank farms or on-site at refineries.

According to data from the Energy Information Administration, the U.S. is using about 63 percent of its storage capacity, up from 48 percent a year ago. "We have more space than some people tend to believe," says Andy Lipow, an energy consultant in Houston. The most recent estimate of storage capacity also doesn't include tanks built since September in North Dakota, Colorado, Wyoming, and Texas, he says.

Still, the amount of space available

in the tanks at Cushing is getting tight. The storage hub will run out of room by Memorial Day, says Stephen Schork, who runs energy consulting company Schork Group. As long as oil stays cheap, he says, traders have an incentive to store it. Cushing has room for roughly 71 million barrels of oil, up from about 50 million in 2010. One of the biggest owners of tanks there is Canadian energy distributor **Enbridge**. "We don't have much room left, but we're still answering the phones," says Mike Moeller, who manages the company's Cushing tank farm. "Not everybody who calls is going to get space." He says monthly lease rates in the spot market have gone from dimes per barrel to more than a dollar in some cases.

Even with prices less than half what they were last summer and storage capacity growing scarcer, U.S. oil output has continued to rise. Through February, U.S. daily crude production reached 9.3 million barrels, about 1 million barrels more than a year ago. The massive storage buildup has provided oil companies with a phantom demand for their crude. Many hedged production before prices got too low, taking out futures contracts that guarantee a certain price. That's allowed them to sell oil for a price higher than the going rate of \$49 a barrel, keeping many profitable despite lower prices.

Running out of room inside the nation's storage tanks might be the only way to keep companies from pumping

more oil. "These producers have kept chugging away when they should have been shutting down," says Dominick Chirichella, co-president of the Energy Management Institute, a New York-based advisory group. "At some point, the fact that supply is outstripping demand has to have its moment of truth." —*Matthew Philips*

The bottom line A record 449 million barrels of oil are being stored in the U.S. Shrinking storage capacity might lead to another drop in prices.

Rogues

Putin and Kim Jung Un Go a-Courtin'

► Partly to rile the U.S., Russia ships aid to the dictatorship

► "North Korea feels protected... by the Russians"

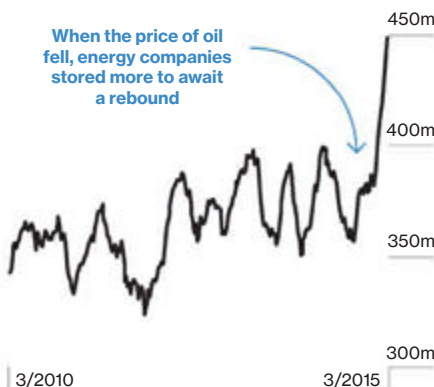
In his more than three years in power, North Korea's Kim Jong Un has purged his government of rivals, forged ahead with the country's nuclear weapons program, and, if the FBI is right, humbled **Sony** after it dared to mock him in a movie.

One thing Kim hasn't done is travel outside of North Korea. Although his father, Kim Jong Il, was a regular visitor to Beijing, relations with China have been frosty since the December 2013 execution of the younger Kim's uncle and onetime second-in-command, Jang Song Thaek, who'd been close to Chinese leaders. Asked on March 8 whether President Xi Jinping would meet this year with Kim, China's Foreign Minister Wang Yi wasn't encouraging. "When our leaders will meet will have to suit the schedules of both sides," he said.

With the Chinese so standoffish, Kim is turning to another leader with a bit of a PR problem—Vladimir Putin. Russia wants Kim to make his first trip abroad to attend the May celebrations marking the 70th anniversary of the Soviet Union's victory over Nazi Germany. Russia's Foreign Ministry says North Korea has "given positive signals" about the trip, which would be the culmination of efforts to improve relations ►

Fat Inventory

Barrels of commercial crude oil stored in the U.S. (excluding the government's Strategic Petroleum Reserve)



◀ between the countries. The Russian government has promised to help build infrastructure in North Korea and increased shipments of coal, oil, and timber to the country. A new Russia-North Korea business council is promoting Russian investment. Both sides have proclaimed 2015 as Russia-North Korea Friendship Year.

Undergirding the emerging Moscow-Pyongyang axis is shared hostility toward Washington. Putin needs friends following the annexation of Crimea and intervention in eastern Ukraine. "Russia in its isolation has clearly been using North Korea as one way of poking its finger at the U.S.," says L. Gordon Flake, chief executive officer of the Perth USAsia Centre at the University of Western Australia. North Korea last month vowed it was done talking with the Americans following President Obama's remarks in an interview with YouTube on Jan. 22 predicting the regime's collapse. "North Korea feels protected, potentially supported by the Russians," says Leonid Petrov, a visiting fellow at the Australian National University's College of Asia and the Pacific. Kim, he adds, has been "emboldened by antagonism between the Kremlin and the White House."

Closer ties with Russia could provide a further boost to North Korea's economy, which is showing signs of a rebound. There have been several good harvests, and the country is producing more food than ever, says Joel Wit, a senior fellow at the U.S. Korea Institute at the School of Advanced International Studies at Johns Hopkins. Statistics for North Korea are hard to come by, but anecdotal evidence suggests the quality of life in Pyongyang is better, with residents getting more consumer goods, says Charles Armstrong, a professor of Korean studies at Columbia University. The country "is in a stronger position than a few years ago," he says. The economic situation, hardly good by most standards, "does appear to be more stable," he says.

The North Korean nuclear program is moving ahead. SAIS published a report in February forecasting that North Korea could have as many as 100 nuclear weapons by 2020. "Their capability is becoming larger," Wit says, "and that's making them feel more confident."

There are limits to what the North Koreans can expect from Russia. It's not like the 1950s, when money was no object in Stalin's support for North

Korea founder Kim Il Sung. Putin's Russia is a lot less generous, says Andrei Lankov, professor at Kookmin University in Seoul. Kim's regime wants "cheap or free loans that are not going to be repaid, or investment which won't pay profits in the foreseeable future," Lankov says. "The North Koreans don't understand that Russians are not going to spend significant money to annoy the Americans and the West." —*Bruce Einhorn, with Sam Kim and Henry Meyer*

The bottom line Pyongyang is forging stronger ties with Moscow, giving North Korea's stabilizing economy a further boost.

Elections

A Fiery Leftist Galvanizes Spain

▶ Pablo Iglesias wants to be prime minister and restructure the debt

▶ "Rajoy's policies don't create jobs, they spread misery"

Pablo Iglesias was studying in Italy in 1999 when reports of protests at the World Trade Organization's meeting in Seattle inspired him to switch to political science from law. Today, less than a year before Spain's next general

election, the professor with a ponytail leads the country's most popular party.

The rapid rise of Podemos (or "we can"), the 14-month-old party Iglesias founded, signals a major shift in Spanish society. After the seven-year economic slump destroyed more than 3 million jobs, the Spanish are angry at the establishment that has ruled since the death of dictator Francisco Franco 40 years ago. This resentment could lift Podemos to victory in 2016. The party pledges to restructure Spain's €1 trillion (\$1.1 trillion) of government debt in what would be the biggest sovereign reorganization in history. The proposal has vaulted Podemos into the lead in 10 different polls since November.

The ramifications of Iglesias's proposal, which would probably lower the price of some Spanish debt, have yet to sink in with financial markets. Spanish bonds that mature in January 2016 were still trading at very high prices in early March. Investors are being "complacent" about Podemos's plan, says Alastair Newton, a senior political analyst at Nomura International in London. "We're going to start getting some choppiness" in the markets.

The Podemos program would also include more state control of companies, a guaranteed basic income for all, more controls on corporate lobbying and tax-avoidance, the promotion of food production by small local farms, and withdrawal

Iglesias



from certain free-trade agreements.

Prime Minister Mariano Rajoy's People's Party and his main opposition, the Socialists, have taken turns governing in coalition with smaller parties since 1982. The economy doubled in size under their rule, but the crisis has loosened their grip, as reports of graft at the main parties and the savings banks

they control have come to light.

22.5%

Share of Spanish voters who supported Podemos in a March 9 *El Pais* poll

Iglesias describes his opponents as "the caste," an elite that kept most of the gains from the boom years and left ordinary people to shoulder the cost of the crisis. "Corruption

is not just the scoundrels who put their hands in the till, it's also the rich 1 Percent, who own as much as 70 percent of the population" owns by binding them down with credit card debt, mortgages, and dead-end jobs in giant corporations, Iglesias told hundreds of thousands of supporters in Madrid on Jan. 31. "Rajoy's policies don't create jobs, they spread misery."

With Spain's economy growing at its fastest pace since the crisis, Rajoy warns that a radical change risks derailing the recovery. In Greece, Iglesias's fellow leftist Alexis Tsipras and his Syriza party swept to power in January promising similar debt write-downs, only to dump most of their election pledges to win support from the euro area and avert a default. "Syriza is proving that this platform is illusory in Europe," says Jacob Funk Kirkegaard, a senior fellow at the Peterson Institute for International Economics in Washington. "That will turn out to be a significant political problem for Podemos."

Iglesias, 36, the child of activists, is named for the founder of Spain's Socialist Party, according to his uncle Santiago Iglesias. When Pablo was about 15, Santiago and his wife visited Cuba. On their return, he told his nephew about the problems the Cubans faced. "At least everyone there has enough to eat," Santiago recalls Pablo replying.

The ideas behind Podemos come from the political science faculty of Madrid's Complutense University, where all of the party's most senior officials taught. Iglesias's doctoral

thesis examined the mass protests that followed those at the Seattle meeting, at the IMF/World Bank conference in Prague in 2000 and the Group of Eight meeting in Gleneagles, Scotland. As part of his doctoral research, Iglesias lived with supporters of the Zapatista rebel movement in Mexico, whose members had made a dramatic appearance in Seattle. Later he advised left-wing leaders in Latin America, including Venezuela's Hugo Chávez.

The economic crisis gave Iglesias and his colleagues their opening. On May 15, 2011, after a protest against the government's budget cuts, a few demonstrators set up camp in a Madrid square. The movement, dubbed the 15-M after the date it began, snowballed, and thousands of people took over the square, pitching tents and calling for "real democracy." Iglesias emerged as one of the leaders. The protests inspired Occupy Wall Street in the U.S. later that year.

After the 15-M movement proved unable to campaign effectively against Rajoy and the conservatives, Iglesias and his followers carefully planned their new party. Podemos has already scored a victory: Spanish voters sent Iglesias to the European Parliament last year. Now comes the election in Spain. —*Esteban Duarte and Maria Tadeo*

The bottom line Pablo Iglesias's Podemos party has tapped into a deep resentment of the established political order in Spain.

Environment

China Hails, Then Bans A Documentary

- ▶ The country's *Silent Spring* falls victim to government feuding
- ▶ "It was confrontational and cathartic"

It was no surprise that the Chinese government banned the environmental documentary *Under the Dome*, by Chai Jing, a well-known former television reporter. The surprise is that it took the authorities so long to do it. The film, which exposes the

tremendous damage China's heavy industry has done to the environment, and the powerlessness of the Ministry of Environmental Protection to enforce antipollution laws, attracted 200 million viewers in the week after it was released on the Internet for free on Feb. 28. Environment officials at first praised Chai's chilling account, and state-owned media said the film was a wake-up call.

On March 7, *Under the Dome* disappeared from the Chinese Web. It was abruptly removed from file-sharing sites, and references to the film in state-run media ceased. Chai "really pointed fingers at the lack of regula-

tory enforcement on the government's part," says Hao Wu, a Chinese filmmaker who's a fellow at the Washington-based New America Foundation. "It was confrontational and cathartic. She was able to do what we

cannot do: Go to government and say, 'Here's what you have done wrong.'"

Wu says the sudden shift from support to censorship reveals disagreement among factions of the government, perhaps between the environmental ministry and the powerful economic ministry. "It's a reflection of some kind of political infighting that they chose to shut it down," he says. Calvin Quek, head of sustainable finance for Greenpeace East Asia in Beijing, speculates that timing may have been a factor: "The government censored the film because it got 200 million views, and they did not want it to dominate the twin conferences," the annual meeting of top party officials and the National People's Congress, which started in Beijing on March 5.

Deleting the movie from public file-sharing sites, however, isn't the same as erasing it from public memory. "The video has already gone viral and will continue to do so—perhaps even more," says Angel Hsu, an expert in environmental governance and policy at Yale University who works frequently in China. As of March 10, the full video was still viewable on the website of independent newsmagazine *Caixin* and, for those in China with a virtual private network, on YouTube and several foreign news sites. ▶





The Border Trade

Merchants in Cúcuta, Colombia, buy cheap Venezuelan goods from smugglers. Even after paying a markup, the city's merchants can offer shoppers lower prices than those in supermarkets in the capital, Bogotá.

Foot traffic is heavy on the Simón Bolívar bridge

Venezuela	Retail prices	Bogotá
Gasoline		
0.1¢/gal.		\$3/gal.
Corn flour (1kg)		
5¢		\$0.95
Vanish stain remover		
\$2.40	Venezuelan soldiers look for smugglers	\$11.30
Dove deodorant		
7¢		\$5.21
Laundry detergent (2.35kg)		\$5.90
28¢		



The smuggling

Colombian tax authorities estimate that the annual illegal border trade with Venezuela is worth

Sold in Cúcuta for \$1.60

\$5b

◀ “Many people have saved the file, and there are ways to watch it if someone tries to search for it,” says Wen Bo, a longtime environmental activist who’s now China adviser for the National Geographic Air and Water Conservation Fund. “In today’s world, information spreads really fast. Preventing the free flow of information can really backfire.”

While censorship makes it more difficult to access the file, it also generates excitement over the film. “Given the lack of transparency, ordinary Chinese have a fascination with the unpleasant secrets of the government,” says Beijing-based writer Lijia Zhang. “Now people know about the inaction of local government, and how coal is produced just to keep up GDP levels. People are not surprised by such facts, but angered by them anyway. The days when the Chinese authorities can brainwash its citizens are over in this Internet age.”

The film could yet strengthen the hand of China’s environmental enforcers, who granted rare interviews to Chai. “I think it’s already served the

purpose the [environmental ministry] had intended,” says Yale’s Hsu, “to jockey for more power and positioning within the government, where its enforcement capabilities have been notoriously weak.” —Christina Larson

The bottom line Despite a ban, Chinese can still find *Under the Dome* on the Web if they try hard enough.

Trade

Venezuela’s Currency Is a Boon to Smugglers

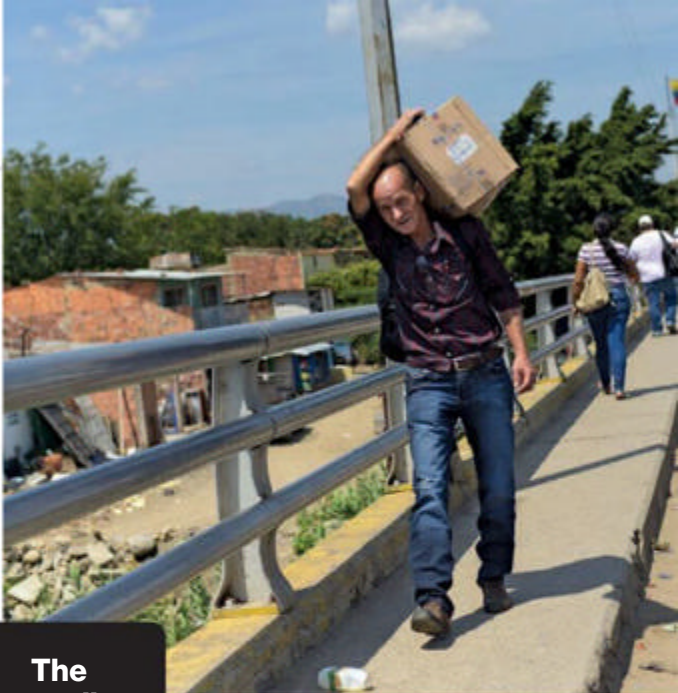
- ▶ Venezuelans sell price-controlled goods for more in Colombia
- ▶ “I still can’t find anyone. Why? Because they’re all busy smuggling”

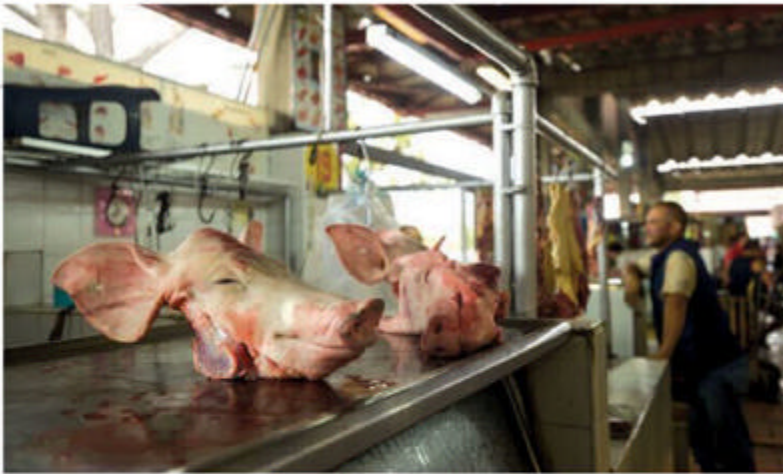
Colombians in Cúcuta, on the border with Venezuela, dine on smuggled chicken, rice, and pasta, brush their teeth with smuggled toothpaste, and wash their hair with smuggled shampoo.

This bounty comes courtesy of the socialist government of Venezuelan

President Nicolás Maduro, which keeps consumer goods, gasoline, and food cheaper than anywhere else in South America. Prices are low, but the shopping lines take hours to shuffle through, the choice is limited, and supplies short. The variety and quantity might be better if not for crooked Venezuelan officials with access to subsidized produce and goods. (Individual Venezuelans also smuggle.) They’re selling to Colombian merchants who pay more than the regulated prices set by the Caracas government. The Colombians also pay in pesos, rather than in bolivars, Venezuela’s currency. The bolivar has slumped about 60 percent on the black market since September, following the plunge in the price of crude oil, the country’s main export. Venezuela’s Information Ministry didn’t reply to e-mails and phone calls seeking comment.

The illegal border trade is worth roughly \$5 billion a year. About 80 percent of goods on sale in Cúcuta’s biggest marketplace come from Venezuela, says Hernando Gomez, who represents the market’s 1,683 stall holders. “Venezuelans sell at prices that are very expensive for them but for Colombians are extremely cheap,





1kg of corn flour
costs 1,900 pesos, or
72¢

In Cúcuta a 2.35kg
bag of laundry
detergent costs
8,000 pesos, about
\$3.05



Gasoline costs
6,000 pesos, or
\$2.30/gal.

because of the exchange rate," he says, adding that smugglers arrive with rice and sugar in multi-ton loads.

Smuggled food and goods are openly on sale in Cúcuta's La Parada district, a few hundred yards from the "Welcome to Colombia" sign at the border. Many of the products have been stamped by Venezuela's Fair Price Regulator with the mandated price in bolivars. Police in La Parada turn a blind eye. A thirsty traveler can buy an ice-cold contraband soda on the Simón Bolívar bridge between the two countries, right under the gaze of the security forces and customs officials at either end. Young women sit on the bridge, offering to change currency while they fan themselves with 100-bolivar notes, worth about 36¢ each on the black market. Below, in the almost-dry riverbed, Venezuelan soldiers look for smugglers.

In a store near the border, a 50-gram Dove deodorant, made in Mexico by Unilever, is on sale for 4,000 pesos (\$1.60). It's stamped with its legal price of 17.58 bolivars, about 7¢ at the informal exchange rate. In a Bogotá supermarket, the same

product, shipped and handled the legal way, costs 13,670 pesos. A 1-kilogram bag of maize flour, marked "For sale only in Venezuela" and stamped with its regulated price of 12.4 bolivars (about 5¢), costs 1,900 pesos (72¢) in the market. "All the produce here is Venezuelan," says a butcher with a stall who asked not to be named because he sells smuggled meat.

José Vielma Mora, the governor of Venezuela's Tachira province, which borders Cúcuta, feels the impact of smuggling. "I'm looking for five people to work for me in the state office, and even with all the benefits we provide—in cars, housing, food—I still can't find anyone," Mora says. "Why? Because they're all busy smuggling."

Maduro and Colombian President Juan Manuel Santos met last August to launch a crackdown on smuggling. The price of a gallon of contraband gasoline in Cúcuta spiked 50 percent, to \$3.40 per gallon. It's now back at about \$2.30, slightly more than before the two met.

Contraband fuel is sold openly, from makeshift gas stations. The crackdown has raised bribery costs, according to one gasoline seller, who

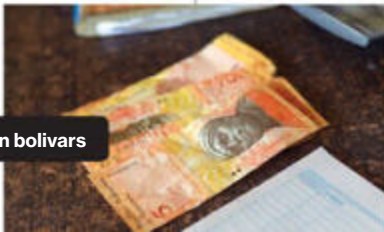
asked not to be named because his job is illegal. He lies in a roadside hammock, surrounded by gasoline cans. When a car pulls up, he siphons the contraband into the tank. Since fuel is virtually free in Venezuela, the biggest costs are bribing officials on both sides of the border and paying off the Colombian mafia clans and guerrillas who control the dirt tracks that cross it. One smuggling run can require eight bribes.

Santiago Rojas, head of Colombia's Customs Agency, says that improved coordination with the Venezuelans, aerial monitoring of the border zone, and the use of special units to control cross-border dirt tracks have helped cut smuggling by half in the past year. Despite this, high volumes of contraband continue to get through. "Exchange rates that are so different generate business linked to arbitrage," Rojas says. "This has generated a complicated series of practices." —*Matthew Bristow and Anatoly Kurmanaev*

The bottom line Venezuelans can buy a gallon of gasoline at home for less than a penny and sell it in Colombia for about \$2.30.

B Edited by Christopher Power
Bloomberg.com

Venezuelan bolivars



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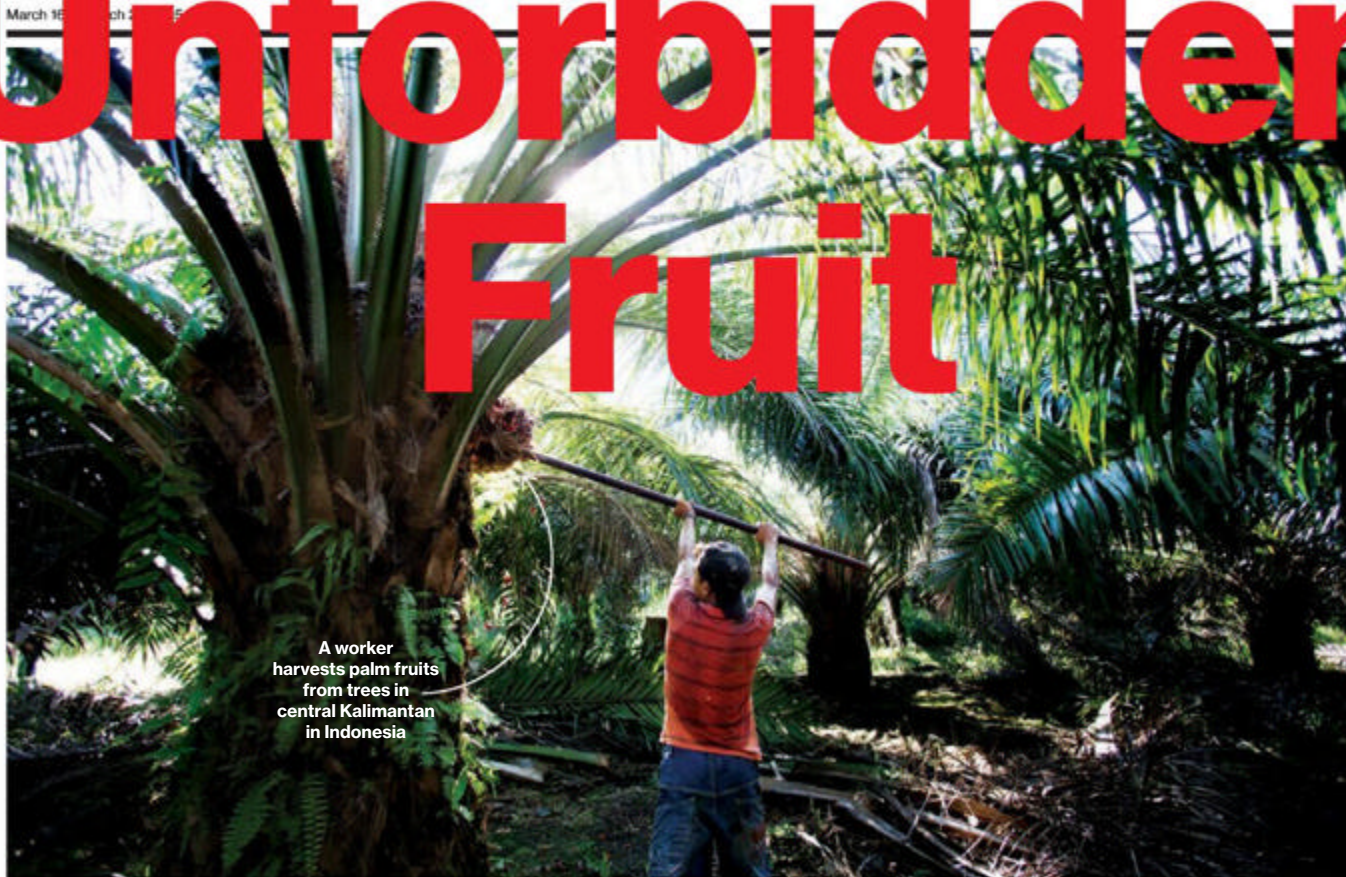
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Consulting

Unforbidden Fruit



A worker
harvests palm fruits
from trees in
central Kalimantan
in Indonesia

► A palm oil king is cleaning up the industry that made him a billionaire

► “We were made to look like the biggest villain”

The sprawling palm oil industry has long been a destroyer of rain forests and tormentor of endangered species across Southeast Asia, to hear environmental groups tell it. And if one executive embodied this \$50 billion business, it was Kuok Khoon Hong, a 65-year-old Singaporean commodities magnate.

Known as the palm oil king, Kuok is a member of one of Asia's most powerful business clans and co-founder and chairman of **Wilmar International**. These days he is no longer portrayed as a villain by activists and nongovernmental organizations. He's become central to their campaign to prod the palm oil industry to adopt eco-friendly business practices that may start to slow the environmental damage in the region. “I would consider myself an environmentalist today,” he says. “I changed a few years ago when I saw the damage climate change had on the environment in some countries.”

Extracted from the orange pulp of a palm fruit, palm oil is the most used edible oil in the world. You use it every time you brush your teeth, wash your hair, eat ice cream, or put on lipstick. As commodities go, it's cheap, versatile, and plentiful—palm fruit yields more oil than any other agricultural commodity. Cultivation of palm oil ties up more than 42 million acres worldwide, an area four times the size of Switzerland.

The business has made Kuok a billionaire and lifted many communities in Southeast Asia and Africa out of poverty. It's also led to mass deforestation and a big air pollution problem. Some palm growers still take a slash-and-burn approach to clearing forests, although the practice is banned in Indonesia and Malaysia. That sends massive amounts of carbon dioxide into the air. In parts of Southeast Asia, only 5 percent of primary, or virgin, forest

cover remains, according to Global Witness, an environmental group.

Kuok's change in thinking has been gradual and owes much to pressure from shareholders and environmental activists. About two years ago, Norway's **Government Pension Fund Global**, the world's biggest sovereign wealth fund, dumped shares in Wilmar and 22 palm companies, citing environmentally harmful industry practices.

Greenpeace videos alleging that palm oil buyers including **Unilever** and **Procter & Gamble** contribute to deforestation scored millions of YouTube hits. On an investor call, environmentalists heckled the chief executive officer of **Kellogg** about buying palm oil from Wilmar. In 2013, Singapore, where Wilmar is based and Kuok lives, was covered in ash from plantation fires tied to the industry.

A Chinese immigrant family in British-controlled Malaya, the Kuoks ►

Companies/Industries

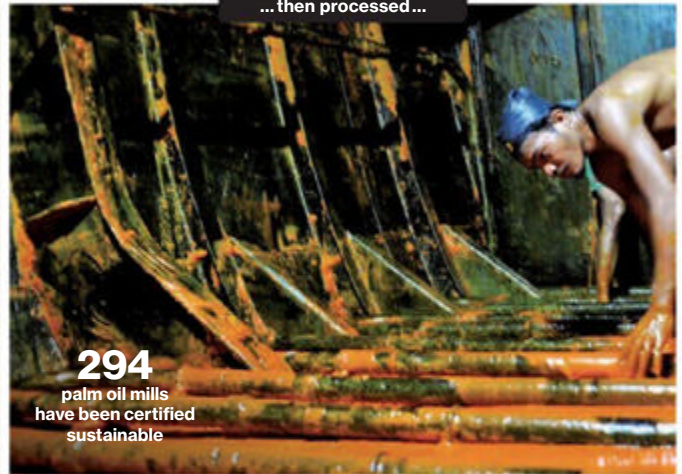
The pulp and kernels of inedible palm fruits are separated, then squeezed, for oil

Palm fruit is harvested ...



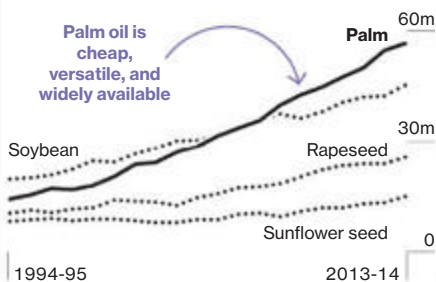
Under the Frond

... then processed ...

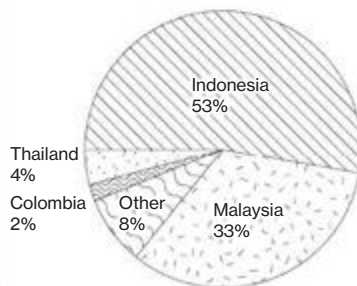


294
palm oil mills
have been certified
sustainable

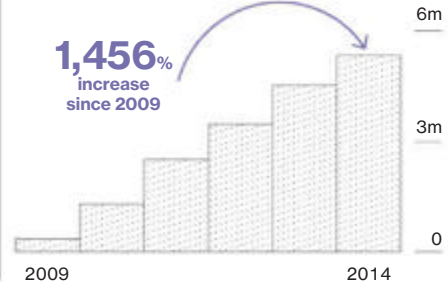
Global vegetable oil consumption
by volume (metric tons)



Palm oil producers by country



Sales of sustainable palm oil
by volume (metric tons)



started with a rice and flour shop before patriarch Robert Kuok rose to be one of the world's top sugar traders. Robert's nephew Khoo Hong set up Wilmar with a partner in 1991. Operating largely in Malaysia and Indonesia, the company grew to be one of Singapore's biggest, with \$43 billion in revenue in 2014, and it's the Kuoks' premier agribusiness.

Wilmar had argued that it was primarily a trading company and didn't play a direct role in the environmental abuses—and thus couldn't be expected to police the industry. Nevertheless, it was an attractive target for critics. One activist went on TV to blame Singapore's ash on Wilmar. "I asked myself what we did wrong for us to be so wrongly accused," Kuok Khoo Hong says.

Because of Wilmar's industry position, "we were made to look like the biggest villain." The activist on TV was Glenn Hurowitz, an executive director of the environmental consulting group Catapult, in Washington, and one of the strategists behind a yearlong attack by NGOs on the palm industry, with Wilmar as the No. 1 target.

Kuok tracked down Hurowitz. Within weeks the former tormentor

was in Kuok's office laying out a plan to change the palm oil industry and eradicate its links to deforestation. Face to face with Kuok, Hurowitz says he found the businessman interested in what he had to say. "He had not been focused on the environmental issues until we started talking," Hurowitz says. "He deserves enormous credit for being open-minded."

By late 2013 the sustainability momentum brought in Unilever CEO Paul Polman, whose company is the world's biggest buyer of palm oil. Polman joined the talks as Unilever had been under pressure from activists. Wilmar, Unilever, and environmental groups wanted all palm oil companies to sign off on new industry standards, but most resisted. When Unilever agreed to join with Wilmar, Kuok broke industry ranks and made the environmental pledge in late 2013.

"He had not been focused on the environmental issues until we started talking. He deserves enormous credit for being open-minded."

Wilmar and Unilever announced that not only would they abide by sustainable principles but they would also force their suppliers to do the same. They effectively promised that no trees of any kind, peat land, or orangutans were damaged or hurt in the making of the products. More companies jumped on board with zero-deforestation pledges. **McDonald's**, **Procter & Gamble**, and **Starbucks** are among more than 30 companies with commitments to buy palm oil that's certified as sustainable by the end of 2015.

Wilmar and Unilever are backing a database system that asks companies involved in the sale and purchase of palm oil to detail their transactions. If it works, industry players will be able to check the original source of their palm oil and determine whether the supplier is compliant with environmentally friendly practices. Yet another tool, an online map built by the World Resources Institute environmental group, uses satellite imagery to identify forest fires and tree clearing. In January, Wilmar set up a website that catalogs its supplier mills and plantations and lets visitors to the site check whether these are in an area that's been deforested.



...and then used in products such as toothpaste

The push to clean up palm oil production faces big challenges. It's a fragmented industry, and not every company has joined the sustainability push. Nor are the initiatives Wilmar and others have signed on to legally binding. Restoring the lost rain forests and animal habitats will take decades.

Still, the campaign is more than a public-relations gesture, says Dave McLaughlin, vice president for agriculture at the World Wildlife Fund: "They're putting their credibility on the line." These global companies, he says, "really are exposed on the palm oil issue. It's difficult. The circumstances and the issues are not easy, but they're doing it." —*Yuriy Humber and Ranjeetha Pakiam*

The bottom line Wilmar's and Unilever's push to stop deforestation in the palm oil industry has moved other big companies to follow suit.

Oil

A Crude Awakening for General Electric

▶ Its energy division will cut jobs and buy companies

▶ "It's going to be a very tough orders year"

Not long ago, oil looked like a black gold mine for **General Electric**. The company known for toaster ovens and lightbulbs wrapped up a three-year, \$10 billion buying spree in 2013 to bolster the growing oil and gas equipment unit that helped GE recover from the financial crisis. The company bulked up with the expectation that crude prices would remain at about \$100 a barrel for years.

These days, with the price of oil 40 percent lower than six months ago, energy companies are buying less drilling and processing equipment. The industry plans to slash spending by \$40 billion and cut 100,000 jobs globally. GE's oil unit is cutting costs and laying off employees, too. In December the company warned investors that the oil and gas division in 2015 could face its first sales decline—of as much as 5 percent—in five years. "I am not being Pollyannaish in any way," says Jeff Bornstein, GE's chief financial officer.

"It's going to be a very tough orders year, and we're going to see an impact."

How GE's oil division navigates the choppy market will determine the company's fortunes for years. The \$19 billion oil division, now GE's third-largest manufacturing division, accounts for 12 percent of GE's revenue and almost 20 percent of industrial sales, up from only 4 percent a decade ago. Oil and gas became a centerpiece of a massive portfolio restructuring following the financial crisis, when the company sold portions of its finance arm and the consumer unit that made appliances. GE looked to industrial sales to boost shares that fell 30 percent in the past decade—the only Dow Jones industrial average stock that's down in that time span.

Given the challenges, the oil unit is trying to grab market share as it introduces more technologically advanced products and attempts to buy weaker competitors. "A lot of people are saying, 'This is a hard time' and 'What's going to happen?'" says Lorenzo Simonelli, president and chief executive officer of GE Oil & Gas. "This is an opportunity."

GE soon plans to announce an \$850 million equipment order from customers led by **Eni Ghana Exploration & Production** that will supply Offshore Cape Three Points, an underwater oilfield development off Ghana's coast. The company is also developing environment-friendly technology with Norway's **Statoil**, bolstering its relationship with a longtime buyer of GE's subsea and other equipment and keeping pace as the industry adopts better energy-efficiency standards. "For us, this is about competitiveness fundamentally," says Eldar Saetre, Statoil's president and CEO.

Simonelli, 41, a possible successor to chairman and CEO Jeffrey Immelt, sees the downturn as an overdue chance for the industry to improve the efficiency of its products. His division is investing in new technologies, including sensors that allow users to monitor and maintain equipment remotely. With the resources of GE behind it, the oil division will continue to pursue acquisitions.

GE's best hope in oil and gas may be at the bottom of the ocean. It already has a sizable presence providing flow control valves, wellheads, and other equipment for deep-water drilling work. But sales were hampered by the high cost of getting products to market and other problems. "There's an

Companies/Industries

\$19b

The 2014 revenue of GE's oil division

opportunity for the industry to be much tighter with respect to executional efficiency," says Rod Christie, CEO of GE Oil & Gas Subsea Systems. Simonelli is leading an effort to modularize components for subsea production to improve compatibility of the products, reduce costs, and improve flexibility in offshore production. This might generate a windfall for GE, says Nick Heymann, an analyst with William Blair. "It could be the most massively disruptive thing in one of the biggest markets," he says. If Simonelli can pull it off, "he's going to look like the guy who piloted Apollo 13 back home." —*Richard Clough*

The bottom line Even as oil prices have plunged, General Electric is betting big on its oil and gas division.

Leisure

Tesla Juices Up Hotel Owners

▶ Hundreds of hotels across the U.S. and Asia installed Model S chargers

▶ "You can get off the beaten path and into scenic areas"

When Vincent Argiro plans a road trip, he often maps out a route based on hotels that have **Tesla** charging stations.

Argiro, the owner of a Model S sedan, recently traveled from British Columbia to the Bay Area. Most of the drive was along Interstate 5, which has many Tesla supercharger sites. But he also wanted to take in some scenery. He checked a map on Tesla's website and found the Sea Rock Inn in Mendocino, one of several lodgings with a charger along California's coastal Highway 1.

Tesla introduced its Destination Charging program at hotels and wineries last year. The network includes more than 900 locations in the U.S. and Asia. The program builds on the company's network of almost 400 supercharger stations at shopping centers ▶

◀ along major highways.

“When you are on a long road trip, even if there are a continuous string of superchargers, you have to stop and sleep at some point,” says Argiro, 59, who founded technology company Vital Images and is semiretired. “You can get off the beaten track and into scenic areas where it really doesn’t make sense for Tesla to put a supercharger.”

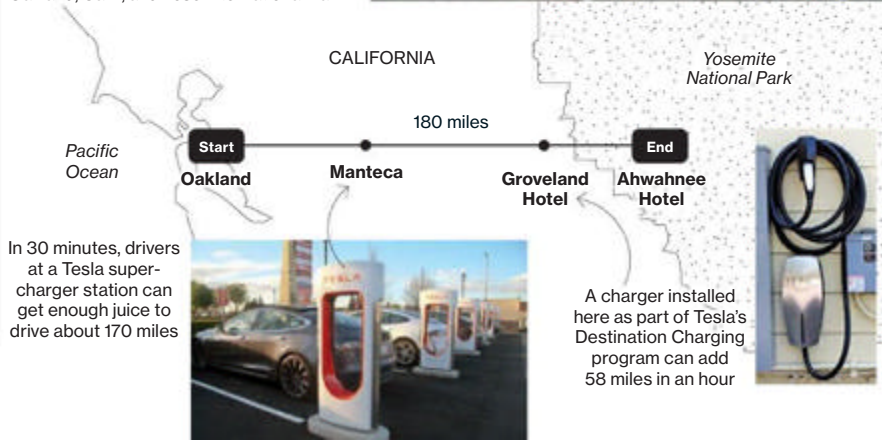
Covering the landscape with chargers is crucial as Tesla prepares for the U.S. release this summer of the Model X, a much-delayed SUV. The Palo Alto-based company has said it will deliver 55,000 vehicles globally this year, up 74 percent from 2014. Charging stations are a big issue in China, where Tesla must overcome the perception that charging is inconvenient. Destination Charging will expand to Europe this spring.

So far, Tesla has covered most of the cost of the hardware and the installation. Establishments benefit from being listed on Tesla’s website; eventually they’ll be included on the mapping function in the car’s navigation system. The charging is offered as a free amenity to hotel guests. A Destination charger adds 58 miles of range in an hour. Superchargers are free to Tesla drivers.

Nissan Motor and other automakers are also adding charging networks to address “range anxiety”—driver concerns about recharging batteries on extended trips. Nissan, which sells the all-electric Leaf, has installed about 800 stations in the U.S. and aims to have 1,700 by the spring of 2016. **BMW, Volkswagen, and ChargePoint**, a company that runs charging stations, are building 100 fast-charging stations along the East and West Coasts to support BMW’s i3, Volkswagen’s e-Golf, and other electric vehicles.

Tesla Road Trip

Charging stations along a route between Oakland, Calif., and Yosemite National Park



Tesla owners say they’re increasingly making lodging decisions based on where charging service is available. The hotels in the program include the Harbor View Hotel on Martha’s Vineyard in Massachusetts and the Four Seasons in Wyoming’s Jackson Hole.

The Ahwahnee Hotel in Yosemite National Park in California has two dedicated parking spots for electric vehicles. One has a Tesla charger; a second has a charger made by ClipperCreek for other vehicles. Both are free for anyone driving within the park.

“Electric vehicles are a regular occurrence in the park, and we want to make sure that people can drive here with zero tailpipe emissions,” says Gary Rosenfeld, general manager of transportation for Delaware North, the concession operator within Yosemite.

Yosemite-bound travelers often stop for lunch in Groveland, a town 26 miles from the park’s north entrance. The Groveland Hotel, built in 1849 during the height of the Gold Rush, has a Tesla station that’s free for guests and \$5 per charge for others. Owner Peggy Mosley called Tesla for information about a wall charger, and it mailed her the hardware, which a local electrician installed. “Tesla owners enjoy fine wine,” says Mosley, whose hotel has an award-winning wine cellar with more than 550 labels.

Not all destinations on the network are deluxe. The Suds Hut Famous Chicken & Casino in Helena, Mont.; a Holiday Inn in Owatonna, Minn.; and a Best Western

in Fresno, Calif., all have chargers.

Argiro, the British Columbian driver, has stayed at a half-dozen establishments offering Tesla charging. “In every case I’ve done this, the hotel owners are overjoyed to see you,” he says. “They all want to come out and look at the car.” —*Dana Hull*

The bottom line Tesla is installing chargers at hotels and wineries to help Model S owners overcome range anxiety.

Marketing

Pernod Ricard’s YouTube Moment

▶ The French distiller turns to social media to help boost sales

▶ “Millennials... choose different drinks for different occasions”

The centerpiece of Alexandre Ricard’s Paris apartment, a short walk from his corner office at **Pernod Ricard**, is a bar displaying 500 bottles of his company’s spirits. Carved into the counter is the phrase “Make a new friend every day,” a favorite of his grandfather, who founded the business. Ricard, 42, who’s been chief executive officer since February, says it’s a reminder of his past and what he must do to nurture Pernod’s success in the Facebook era.

The best way to revive sales of an aging product is to sell “moments of consumption,” Ricard says. Instead of telling consumers that its Chivas Regal Scotch is produced at the oldest operating distillery in the Scottish Highlands, Ricard is taking a contemporary marketing approach. “In the past, if you got a customer to enjoy Chivas Regal, it would be his drink for decades. But millennials are fickle and choose different drinks for different occasions,” he says. “We have to market to their repertoire and their experiences.”

Millennials, the largest generation since the baby boomers, dine out and go to bars often, Ricard says. Many consume liquor and wine as well as beer as soon as they start drinking; they sample many brands and share what they like and dislike on social media.

Ricard plans to devote at least 25 percent of Pernod’s ad budget to digital marketing and is counting on



Briefs

By Kyle Stock

Costly Summer Jam

● 🚗 ● Parts of *Blurred Lines*, one of the most popular songs of 2013, was copied from a Marvin Gaye track, according to a federal court ruling. Artists Robin Thicke and Pharrell Williams were ordered by a jury in Los Angeles to pay the family of the late soul singer \$7.4 million in a decision that could drastically curtail sampling in contemporary music. Thicke and Williams say their work was starkly different from *Got to Give It Up*, Gaye's 1977 hit. Since its release, *Blurred Lines* has earned \$16.5 million in profit, court documents show.

The yearly salary for a sailor on the Oracle-sponsored America's Cup team. The figure was revealed in a lawsuit brought by a seaman who was dismissed in January.

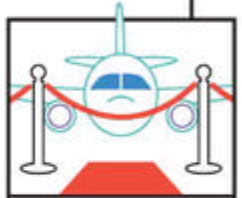
\$300_k

● 🏠 ● *Urban Outfitters* is growing up. A move away from teens ended a yearlong slump, as the retailer posted a 4 percent sales gain at established stores for the

recent quarter. The company shifted from heavy promotions, cluttered stores, and loud graphics to sophisticated photography and fewer apparel styles. ● 🚗 ● *General Motors* said it would spend \$5 billion buying back its own shares by the end of 2016, placating investors who called on the automaker to draw down its \$25 billion pile of cash. GM will invest much of the remainder in designing more-efficient vehicles and driverless cars.

● 🍔 ● *McDonald's* sales continued to slide as global restaurants open more than a year took in 1.7 percent less revenue in

February. Europe was the only region where sales increased. Analysts at Janney Capital Markets say the company is cooking up a plan to add kale to its list of ingredients later this year. ● ✉ ● *United Parcel Service* introduced an ad campaign to win more-complex and lucrative shipping business from companies. Using the slogan "United Problem Solvers," UPS touts its refrigerated warehouses and its expertise at processing e-commerce returns.



Delta Air Lines launched an invitation-only flight to jet celebrities from Los Angeles to Austin for the South by Southwest festival. Seats on the 737 cost \$247 and were parceled out to A-listers via United Talent Agency.

CEO Wisdom

"Eight years as the CEO of a global bank is a long time.... There may well be a lot of interesting things to do, whether it's philanthropy or other things in the business, but that's not something I've spent any time on."

Brady Dougan, who will step down as CEO of Credit Suisse in June



this strategy to lure younger drinkers to Chivas, which saw global sales volume fall 7 percent in its last fiscal year, Pernod says. A new marketing campaign plays to twentysomethings' interest in startups and social media. "The Venture," as the campaign is called, solicits submissions from entrepreneurs who run businesses that strive to fix the world's problems. Five U.S. finalists will be judged in July; the winner will receive \$50,000. Pernod is allocating \$1 million to the global contest. In the meantime, "The Venture" is being promoted in YouTube videos featuring Oscar Isaac, the star of *A Most Violent Year*, and other actors pacing in a boxing ring celebrating businesses that "win the right way." "Millennials want to do something meaningful, more than climb the corporate ladder, and we're supporting that," says Laurent Cutier, a brand director at Chivas. More than 17 million people have viewed the YouTube videos worldwide.

Pernod, the world's second-largest distiller, has faced competition from craft spirits and a shift to whiskey from vodka in the U.S. and other markets, and has been held back by a slowdown in China. Sales of its Absolut vodka fell 4 percent in Pernod's last fiscal year. "They have some strong players, including Jameson, the top-selling Irish whiskey," says Donna Hood Crecca at Technomic, a consulting and research firm in Chicago, "but they have heavy lifting to do with other brands."

Pernod has heavily promoted Absolut Elyx, the luxury vodka it released in 2013, on Instagram and at events during New York Fashion Week and Art Basel Miami Beach. A 1-liter square bottle costs about \$49. Elyx's campaign shows the vodka being made from single-estate wheat and distilled in copper stills in Sweden.

For Ricard, who drinks Elyx on the rocks, endorsing doing good and conviviality is as important as the quality of his products. As much as millennials are online, he says, "you can't share a drink with a computer. Even if you meet online, you still have to meet in person to have a relationship."

—Carol Hymowitz, with Matthew Boyle

The bottom line Pernod plans to spend at least a quarter of its marketing budget on digital to lure millennials to its brands.

The Billionaire Roofer Behind Scott Walker



22

► Diane Hendricks's cash has helped propel the Wisconsin governor into the GOP's top ranks

► "It's sad that we vote for and elect officials to run our state, run our country, over social issues"

Wisconsin's Republican Governor Scott Walker hasn't formally announced he's running for president in 2016, but Democrats have already begun treating him like a threat. On March 9, Walker finished the latest chapter in his four-year fight against unions by signing legislation that makes it illegal for them to charge private-sector workers compulsory dues. Hours later, President Obama took the unusual step of rebuking a sitting governor. "Wisconsin is a state built by labor," the president said. "Even as its governor claims victory over working Americans, I'd encourage him to try and score a victory for working Americans—by taking meaningful action to raise their wages and offer them the security of paid leave."

Walker wasted no time responding. "The president should be looking to states, like Wisconsin, as an example

for how to grow our economy," he said in a statement. The exchange cemented Walker's status as a darling of anti-Obama conservatives—and as a front-runner for the GOP nomination alongside former Florida Governor Jeb Bush. It was also a win for the person who's done more than anyone to help Walker's ascent: Diane Hendricks, the billionaire head of the largest U.S. wholesale roofing supply company.

Hendricks, whose **ABC Supply** is based in Beloit, Wis., is Walker's biggest individual political benefactor. She's given more than \$540,000 to his two gubernatorial campaigns and to his successful effort to defeat a 2012 recall vote. She gave an additional \$1 million to the Wisconsin Republican Party. Hendricks became a lightning rod during the recall after Walker's opponents found footage of them discussing

his plans to crack down on organized labor with new laws limiting union-organizing power, such as the one he just signed, often referred to as "right to work" legislation. "Any chance we'll ever get to be a completely red state—work on these unions and become a right to work?" Hendricks asked. Walker's reply: "The first step is we're going to deal with collective bargaining for all public-employee unions, because you use divide and conquer."

Since the death of her husband and business partner, Ken, in 2007,

Hendricks has plowed millions into conservative causes. According to the Center for Responsive Politics, a nonprofit in Washington that tracks political spending, she gave \$1 million to the conservative Freedom Partners

"Any chance we'll ever get to be a completely red state?"
—Diane Hendricks, to Scott Walker

Action Fund super PAC in September, enough to make her one of its top eight donors. Freedom Partners is backed by the billionaire brothers Charles and David Koch, who discovered Walker in 2009, when he was the top elected official in Milwaukee County.

Koch Industries' political action committee donated \$43,000 to Walker's 2010 campaign, his largest out-of-state donation. The following year, the Kochs' advocacy group, Americans for Prosperity, deployed volunteers to disrupt union protests against Walker's first budget, which cut public pensions and limited the collective-bargaining rights of many state employees. AFP sent hundreds to knock on doors for Walker during the 2012 recall.

Hendricks says Walker, who first attracted attention in conservative circles for his decision to give back part of his salary amid layoffs of county employees in Milwaukee, won her over with his commitment to shrinking government. "It's sad that we vote for and elect officials to run our state, run our country, over social issues," Hendricks says. "I don't believe they belong in politics." She agreed to be interviewed during a meeting of her company's managers in suburban Chicago.

Ken Hendricks epitomized the version of the American dream that Walker extols. A high school dropout, he started a business when he was 21. ABC Supply, founded in 1982, has more than 450 branches in 45 states and annual sales of \$4.6 billion, according to its website. The family also owns Hendricks Holding, which invests in real estate, insurance, construction, manufacturing, and other interests.

Five nights before Christmas 2007, Ken went to check on an unfinished addition at the couple's home. Diane found him lying unconscious on a concrete slab. He'd fallen only 11 feet but sustained massive head injuries. After his death, Diane took over as chairwoman of ABC Supply. She's used her wealth to finance independent films, including *The Stoning of Soraya M.*, about the execution of an Iranian woman. She's also underwritten the WisconsinEye Public Affairs Network, a channel similar to C-SPAN.

One of nine daughters born to a

Wisconsin dairyman, Hendricks told the *New York Times* in 2009 that her father wouldn't let his girls do farm work. As a young woman, she spent three months working on the assembly line at Parker Pen before getting a job selling new homes, which didn't require a broker's license. She met Ken after he called her to arrange a blind date for a buddy. They married, became real estate investment partners, and built their roofing-supply business while raising seven children.

Their estate in Afton, north of Beloit, sits on 200 acres of woodland partly surrounded by a tall fence marked with signs reading "game farm." Hendricks keeps a small herd of deer on the property. "I'm in a male-dominated industry," says Hendricks, 68, who wears her dark hair long and favors black leather jackets. "They like to see deer running by with big antlers."

Hendricks is now among the donors being courted by other aspiring presidential candidates. She says she's met all the leading Republican contenders except for Bush. "There are a lot of great candidates out there, and I think Scott is one of those," she says. "If he goes out here and he keeps doing what he's doing, he's going to be the person that I will support." —*John McCormick, with Julie Bykowicz*

The bottom line Scott Walker's war on unions has helped him win the backing of a Wisconsin businesswoman who's a big Koch donor.

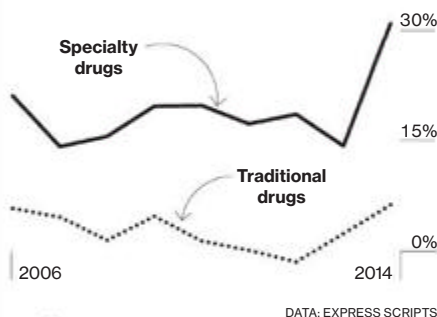
Health Care

Big Pharma Has a New Way to Limit Drug Costs

- ▶ Drugmakers push states to cap co-pays, making insurers pay more
- ▶ "Obviously you're going to try to get the patients to be the front person"

When Congress passed the Affordable Care Act in 2010, lawmakers set caps on how much insurers could ask their customers to pay out-of-pocket. For 2015 the law limits prescription drug co-pays to \$6,600 for individuals and \$13,200 for families, levels that fall

Changes in U.S. Drug Spending



far short of the cost of treatments for advanced cancers and other diseases, including **Gilead Sciences'** \$1,000-a-pill cure for hepatitis C.

Health insurers say pharmaceutical companies should make lifesaving cures affordable. Drugmakers have a different answer. They're giving money to nonprofit patient advocacy groups for a state-by-state campaign called Cap the Copay. It aims to encourage lawmakers to impose further limits on how much insurers can charge patients out-of-pocket for wonder drugs, to as little as \$100 a month. Limiting co-payments effectively insulates patients from those costs by shifting more of the burden of paying for drugs to insurers. Drug companies hope that will mute criticism of the price tags they set. **Pfizer**, one of the largest pharmaceutical companies in the world, has given at least \$1.6 million to groups involved in the campaign to lower co-pays.

Four states—Colorado, Delaware, Louisiana, and Maryland—have already put lower co-pays in place. In February insurers chalked up wins in Mississippi and Virginia, where state legislative committees killed proposed co-pay caps. Lawmakers are considering caps in at least nine other states, including California and Illinois. Of 19 groups in the Illinois Cap the Copay coalition, 10 received grants from Pfizer last year, according to a database the company maintains on its website. "We stand with patients in their efforts to access the medicines and resources they need to fight life-threatening conditions," says Sharon Castillo, a Pfizer spokeswoman.

Insurers say low co-pays eventually come back to consumers in the form of higher monthly premiums. "Proposals that place a cap on prescription drug

◀ coverage without addressing the price side, what's charged for the drug, will only drive costs higher for patients and for state governments and for employers," says Karen Ignagni, president of America's Health Insurance Plans, which lobbies for insurers. Even after co-payments, health plans pay at least 90 percent of the cost of expensive specialty drugs, the group says. Expensive specialty medicines for hard-to-treat diseases such as advanced cancer and multiple sclerosis comprised about 32 percent of health-plan drug spending in 2014, despite representing 1 percent of U.S. prescriptions, says **Express Scripts Holding**, the largest U.S. manager of prescription benefits for employers and insurers.

Patient advocacy groups say taking money from drugmakers doesn't influence their positions. "We are the first to turn to pharma and say that they should revisit their pricing decisions and make the medications more affordable," says John Peller, chief executive officer of the AIDS Foundation of Chicago, which received two grants totaling \$70,000 from Pfizer in 2014 for the co-pay campaign. The Leukemia & Lymphoma Society got \$377,000 for the co-pay initiative and other programs. Midwest senior advocacy manager Brian Sladek,

a survivor of non-Hodgkins lymphoma, says high co-pay caps combined with high insurance deductibles can put life-saving treatment out of reach. "We've seen some patients being charged more and more for their medications and in a lot of cases pricing them out of being able to take the medication altogether."

Deductibles went up about 26 percent on average from 2013 to 2014, to \$4,509, in seven states studied by HealthPocket, a company that analyzes health insurance plans. Many low-end plans offered in Affordable Care Act marketplaces require customers to pay their entire deductible before the insurer pays anything for care. "Not a lot of patients are able to write a check for \$6,000 to be able to access the medicines that they need," says Robert Zirkelbach, a senior vice president for communications at the Pharmaceutical Research and Manufacturers of America, the drug industry's lobbying organization in Washington.

Drug companies have turned to patient advocacy groups because their interests frequently coincide and because sick people are more sympathetic figures than corporate executives, says Sheila Rothman, a professor at Columbia University's Mailman School of Public Health. "Obviously you're

going to try to get the patients to be the front people," she says. "The patient groups really don't see much conflict about what they're doing. They're trying to make things better for their members." —*Alex Wayne*

The bottom line Pharmaceutical companies want states to make insurers absorb high drug costs by lowering patient co-pays.

Homelessness

Finding a Chair for the Night—at the Airport

▶ LaGuardia and JFK see an uptick in transients

▶ "I just thought they were waiting for a flight"

On a freezing Friday night in early March, Joseph Sowards lay on the floor in a corridor at LaGuardia Airport in New York. From a distance, he looked like any traveler who'd gotten caught out by weather delays. But Sowards was already at his destination. He often spends cold winter nights at LaGuardia's central terminal, which is open around the clock. "They don't bother me here," says Sowards, a 44-year-old unlicensed plumber who's been sleeping in parks and abandoned buildings for the past decade.

Sowards was among about two dozen other homeless people planning to stay the night at the airport. Some slept on radiators in the food court or stretched out on seats in baggage claim, blending in with stranded travelers. While the overnight homeless population is bigger at the Port Authority Bus Terminal and Penn Station in Manhattan, a growing number of people are finding shelter at LaGuardia and John F. Kennedy International Airport, both in the city's borough of Queens.

Volunteers of America, a nonprofit that's provided services to transients at LaGuardia and JFK since 1986, counted a monthly average of 45 chronically homeless people at LaGuardia in 2014, an 80 percent increase from the 2011 average. JFK's homeless increased to an average of 33 a month, double the number in 2011. "It's a public space," says Carmen Keaton, Volunteers of America's director for community case management and facility operations.

Quoted

"We don't have any room for racists and bigots at this university. I'd be glad if they left."

University of Oklahoma President **David Boren** at a March 9 press conference about the Sigma Alpha Epsilon fraternity members recorded on video chanting racist slurs

“You have a place to eat. You have a place to panhandle for money and a warm facility.”

Security guards won’t eject the homeless from the airport terminals so long as they’re peaceful and don’t create a nuisance. The Port Authority of New York and New Jersey, which manages LaGuardia and JFK as well as Newark Liberty International, says it works closely with outreach groups. The goal, spokesman Ron Marsico says, is “to be sensitive to the needs of these individuals, while ensuring there is minimal impact to aviation operations for the 117 million travelers flying in and out of JFK, LaGuardia, and Newark Liberty airports annually.”

According to official estimates, 3,357 homeless people were living on New York streets and in parks and other public places in 2014, an increase of 6 percent from 2013. Last year the city expanded its budget for street outreach by \$10 million and boosted spending by \$20 million on a program that provides eviction assistance and back-rent payment. Still, the shelter population grew about 13 percent to more than 60,000 in 2014. Mayor Bill de Blasio is asking the state for \$32 million in rental-assistance funding this year. He’s also pledged to create or preserve 200,000 affordable-housing units.

“I just thought they were waiting for a flight,” Alvaro Uribe, a 29-year-old industrial designer flying to Chicago from LaGuardia, says of a couple sleeping behind him in the waiting area. In the food court that Friday night, a man and woman lay on a metal radiator. In a back corner, a cluster of five people slept, while a woman rested her head on a table covered with a blanket.

Last year, Volunteers of America placed 31 people from LaGuardia and 105 from JFK in shelters or reunited them with their families. Rachel Weinstein, the organization’s chief development and communications officer, says some of those will probably wind up back at the airport, like one man who’s lived at LaGuardia off and on for 20 years. “The guys got him into rehab,” Weinstein says. “He got dried up a couple of times, and he’d keep coming back.” —*Martin Z. Braun*

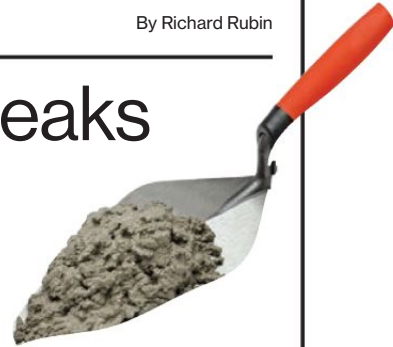
The bottom line New York’s airports have seen an increase in the number of homeless people seeking overnight shelter.

A Bill

By Richard Rubin

Cementing Tax Breaks

H.R. 644 America Gives More Act of 2015



1. On Feb. 12 the House voted to permanently restore three popular tax breaks that expired at the end of 2014. One allows people to make direct contributions from their individual retirement accounts to charities and avoid paying taxes on IRA withdrawals. The others give tax deductions to land-owners or farmers who set aside property for conservation instead of developing it and to restaurants and grocery stores that give away unused food.
2. The bill passed 279 to 137, a majority that included 39 Democrats. President Obama has nevertheless threatened to veto the legislation, which will cost the government an estimated \$14.3 billion in lost revenue over the next decade, because it doesn’t guarantee other tax credits that benefit lower-income Americans. “Republicans are making clear their priorities by rushing to make these tax cuts permanent,” the White House said in a statement.
3. The dispute sets up the first legislative fight of the new Congress over tax reform. House Republicans say it makes sense to start with tax breaks that have bipartisan support. Senate Republicans, who haven’t yet put forward their own tax legislation, say they haven’t settled on a strategy. “My own preference is to get done what we can,” says Pennsylvania Republican Senator Pat Toomey.



Sponsor
Tom Reed (R-N.Y.)
Co-sponsors
Pat Tiberi (R-Ohio)
Aaron Schock (R-Ill.)

And five other
Republicans

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tax rate for the
excise tax on
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pp. 9-10

Charlie Rose talks to...

Dan Pfeiffer

The former Obama adviser discusses Hillary Clinton's e-mail crisis, Iran, and the president's remaining time in office

How did you decide that now's the time to leave?

I had been in a very intense work situation for a very long time. And we have these natural junctures. Every two years is sort of when people decide to rebel. I'd thought that after the midterms in 2014 would probably be my last chance to go. Right after the midterms, I thought we were in a really bad place. I felt I couldn't leave. I didn't want to leave at one of the low points of the presidency. Then we had these really great four, five months that helped the president regain his political standing, grab hold of the narrative. And I thought if I was going to leave, this was the time. But it was a really hard thing to do.

And give me your take on the House and the Senate and Iran and Netanyahu.

We're actually at a very dangerous point in our polarization of foreign policy in this country. The speaker inviting the prime minister to try to politicize and make the U.S.-Israeli relationship partisan? That's very dangerous. Then you have this news that 40-some Republican senators sent a letter to Iran to work with the hard-line elements. They're trying everything to nullify the president's win in 2012. He's in charge of our foreign policy. Congress has a consultative role. And they'll have a chance to vote, if they choose to bring a bill up to try to deal with this. But to actually write a letter to Iran to try to scuttle a U.S. foreign policy initiative...this is a very dangerous thing to do.

What's your assessment of Hillary Clinton's e-mail scandal?

I think this is what David Axelrod referred to as a pimple on the ass of progress. Eighteen months from now or 20 months from now, when people go to the polls to vote in the presidential election, I can't imagine anyone's going to change their vote because of this. This is one of those things that's happening because there's a vacuum in our political discussion right

now. Once there's an up-and-running campaign, this will be a faint memory.

What was the best moment for you at President Obama's side?

The best moment was probably the night we passed health care. To me, that was what validated that this was going to be a different sort of presidency. What really drove me in the [2008] campaign was this idea that the president would do two things: He was going to take on fights other people have shied away from, and he would succeed where others had failed. I questioned that, when it looked like health care might fail. And that we were able to do it, well, there was just elation in the room. It's one of the few times you can make a massive difference in millions of people's lives.

"They're trying everything to nullify the president's win in 2012"

Obama was in Selma last weekend. Does race have anything to do with the opposition he's faced?

I'm incredibly hesitant to ascribe racist motivations to anyone. But there's no question there are people who oppose the president because he's African American and probably also people who support him because he is. I don't think racism drives the overarching opposition to the president. I think it's political, cultural—it's policy.

Now that the president doesn't face another election, does he feel more free to take action?

It was very important to him that we keep the Senate in 2014. That mattered to him, but it also held him back. It made it harder for him to go out and make his case to the country. With that behind him, he has more space. I also think he feels the ticking of the clock. He says to us all the time,

"You will never have a better opportunity to do more good for more people than we have right here." It's like every single day matters.

What's the most emotional you've ever seen Obama?

The most emotional, in terms of deeply affected, would be after Newtown. And I think the most angry I've seen him was after the Senate failed to pass background checks in 2013. There was probably no issue that better exemplified the dysfunctionality of Congress than an issue like background checks, with 90 percent support, being defeated only a few months after a tragedy like Newtown.

Watch Charlie Rose on Bloomberg TV Weeknights at 7 p.m. and 10 p.m. ET

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Run Simple

March 16 — March 22, 2015

The Check Killers



► Cloud companies are finally pushing U.S. businesses beyond paper billing and payments

► “The U.S. is 20 to 30 years behind other countries in moving away from paper”

While consumers keep making more of their daily finances digital—from online banking to Apple Pay—many U.S. companies remain wed to paper. The typical American pays 35 percent of her bills with checks, but most businesses complete more than half their transactions that way, according to researcher Crone Consulting. The federal government, banks, and the largest companies have invested in the servers, software, and staff needed to make transactions more efficient. Smaller businesses have held off, but there are signs that’s starting to change.

Between preparation, approvals, postage, and the costs of dealing with occasional fraud, a business has to spend \$5 to \$25 to issue a paper check, compared with \$1 to \$2 for

the same payment made electronically, estimates Crone. In the past few years the European Union and governments in Latin America have begun to require or encourage businesses to switch to digital invoices. There’s been no such pressure in the U.S., which accounts for two-thirds of the 22 billion checks written each year, according to researcher Celent. “The U.S. is 20 to 30 years behind other countries in moving away from paper,” says Celent analyst Gareth Lodge.

The domestic market for business-focused digital payment software and services grew 10 percent in 2014 and will gain another 10 percent to reach \$10 billion this year, Crone estimates. The growth is driven by a slew of Web-based programs designed to mesh

with a business’s existing accounting systems without pricey servers or other gear.

There’s been a rush of acquisitions and new investment as well. “We see a huge opportunity in B2B payments because they are so far behind the times,” says Drew Hoffer, senior director of financial solutions for SAP subsidiary Ariba. The company’s business-focused software AribaPay has processed \$5 billion in payments since it launched a year ago.

In September printer maker and business services company **Lexmark International** bought online payment processor ReadSoft. In February, **Bill.com** doubled the \$50 million in venture capital it had raised since its 2006 founding, while processor **First** ►

Percent of bills paid by paper check

U.S. Consumers

U.S. Businesses

35% 50%

◀ **Data** led an \$11 million round of investment in cloud rival **MineralTree**. So far no company has more than 5 percent of the market, says Henry Ijams, managing director at industry consultant PayStream Advisors. Bill.com Chief Executive Officer Rene Lacerte says his company may consider going public as early as 2017.

The companies have a wide range of business models. **AvidXchange** signs up individual businesses directly; **ACI Worldwide**, **Basware**, and **Bill.com** do the same, but also sell their processing services through client banks. Some charge fees per transaction, others based on monthly transaction volume. All the cloud programs are designed to link with clients' accounting and business software, such as QuickBooks and NetSuite, and work electronically with a company's suppliers, vendors, and banks. AvidXchange says its cloud setup works with about 100 kinds of software. Earlier electronic payment systems would force bookkeepers to record checks and invoices at least twice if the programs used by the company were incompatible.

Using cloud-based software, an accountant can send a QuickBooks entry to managers for digital approvals, record the transaction in all ledgers, and send payment out automatically for processing. The result: Fewer employees have to deal with payments. "We are probably now up to two, three accounts payable people that we saved," says Jim Cook, chief finance officer at Mozilla, which uses Bill.com. "And we are saving our managers a ton of time, providing an audit trail and time stamps online."

Electronic systems also provide a level of detail that a simple check doesn't. Businesses often issue one check to cover 100 different invoices. Online transactions can itemize the charges. Some new programs can check for errors as well. AribaPay lets users establish dozens of rules on discounts based on order size and other factors and flags an invoice if a purchase order doesn't match the final charge.

Some payment software makers offer extra features to distinguish their products from the competition. ACI Worldwide lets users supplement invoices with videos and personal messages embedded in their PDFs. Basware is expanding an online marketplace that lets companies sell their invoices to debt collectors. It will soon offer loans as well, says CEO Esa Tihilä. His company takes an undisclosed cut of each transaction.

Most cloud companies encrypt their data. Still, recent corporate hacking scandals will keep some companies away from online transactions for years if not forever, says John Barlow, who runs market research firm Barlow Research Associates. "You just look at the news, and there's Target and Home Depot and JPMorgan," he says. "That scares a lot of people. ... They know how to protect themselves with a paper check."

Hacking fears notwithstanding, competition among online payment processors isn't likely to get any less fierce in the near future, because the industry's profit margins reach as high as 50 percent, says Ijams, the consultant. Celent's Lodge says the billions of U.S. transactions still done on paper every year are a powerful incentive for payment processors to deliver the hard sell, even if they're angling to convert only 1 percent of check users. "There's a huge untapped market out there," he says.

—Olga Kharif

The bottom line The \$10 billion market for digital corporate payment processing is getting more competitive as the money rolls in.

Wearables

For Apple, Only Time Will Tell in China

▶ The pricey gold-encased version may do best abroad

▶ "China, if not their biggest market, will be their most important"

After **Apple** showcased its slate of iPhone-linked smart watches on March 9, it was clear that plenty of early adopters would buy basic versions priced at \$350 and \$550. The big question was, who on earth is going to buy

the Apple Watch Edition for \$10,000 and up? After all, lots of Apple devices get tossed aside every time the company comes out with the Next Big Thing.

For those sitting in the auditorium in San Francisco for the press conference, it seemed clear what Apple hopes the answer will be: the Chinese.

Leading up to Chief Executive Officer Tim Cook's presentation, the company showed a video of a newly opened Apple Store in the eastern Chinese city of Hangzhou, home to Alibaba. When presenters began listing the apps that will work smoothly on Apple watches, front and center was WeChat, the Chinese messaging service with more than 500 million users. All of this after Apple made sure the watch's magazine cover debut was a fashion shoot for *China Vogue*.

The watch will go on sale in China on April 24, the same day as its U.S. rollout. There, the priciest version of the gold Edition will run 126,800 yuan

(\$20,264). "They get where this is going," says Ben Bajarín, an analyst for consultant Creative Strategies. "China, if not their biggest market, will be their most important."

The past quarter has been particularly good to Apple in

China, where the success of the iPhone 6 and 6 Plus helped boost its revenue 70 percent and put it atop China's smartphone sales charts for the first time, according to Canalys data. Cook said in 2013 that he expects China eventually to overtake the U.S. as Apple's largest market. Greater China contributed more than \$16 billion to Apple's sales during the holiday season, about one-fifth of its total haul.

China's prominent role in the Apple Watch presentation is a sign that Cook's strategy to top the company's \$182 billion in 2014 revenue this year hinges in large part on the world's second-largest economy. The country accounts for one-third of the global market for luxury goods, according to Bain. Although Apple's gold smart watch isn't expected to be a large seller—Piper Jaffray analyst Gene Munster estimates it'll account for 10,000 of the first 8 million in the company's smart watch sales—a strong showing by gold-colored iPhones in China suggests that real gold will do

"An international brand, plus add gold into the equation. I think that combination is going to appeal in China."
—Chris Jones, Canalys analyst

18-karat rose gold case with
rose gray modern buckle



\$10_k

even better there, says Chris Jones, an analyst at Canals. “An international brand, plus add gold into the equation,” he says. “I think that combination is going to appeal in China.”

Apple opened six stores in China in the six weeks before the March 9 press conference, including the one in Hangzhou, bringing the total to 21. The company has said it plans to have 40 stores in the country by the middle of 2016.

In China, perhaps even more than the U.S., Apple will have to prove itself as a luxury watchmaker, says Tom Doctoroff, head of J. Walter Thompson’s Asia Pacific arm and author of *What Chinese Want*. In a market where luxury cars are seen as coming from Germany and fine wines from France, Doctoroff says, smart watches will have a tough time dislodging Rolex. “Generating face, or social currency, requires instant telegraphing,” he says. “The Apple Watch will compete with expensive watches that project identity in a rather immediate way. Even though Apple is creating the gold-cased Edition, this will be faux luxury to elite Chinese.”

A quick survey of shoppers perusing watches in Beijing on March 10 suggests that Apple has work to do before it starts shipping its gold to China. Chen Zhiting, a 55-year-old retired

commodities broker, was looking to buy what he called a “sporty” watch for as much as \$8,000, but the 18-karat Edition wasn’t on his radar. “Does Apple make watches?” Chen asked. “I thought they were the iPad people.” —Tim Higgins, with Edmond Lococo

The bottom line Apple, which made 21 percent of its revenue in China over the holidays, hopes wealthy Chinese will buy its 18-karat watch.

Software

EA Tries Selling Video Games That Work

► The developer held back big releases after a string of blunders

► “A whole lot of times we’d go, ‘Yeah, well, live and learn’”

Two years ago, **Electronic Arts**, the second-largest U.S. video game company, ran on promises. Developers pitching a feature for a big game had to produce a cool video to win approval from the bosses. They were then left alone for months, until it was too late to fix any problems, says Ian Milham, one of the company’s creative directors. He describes the philosophy as “make a trailer that promises a lot and then don’t show anyone until it’s perfect.”

Often it wasn’t. Several of EA’s biggest 2013 releases, including entries in its *SimCity* and *Battlefield* franchises, were so bug-ridden on release

that they crashed game servers and were essentially unplayable for days or weeks before they were fixed. EA’s sports games have become Internet punch lines, thanks to videos of glitches trapping digital athletes in **anatomically impossible** positions.

Last year, the company tried something new—delaying games. It held back *Dragon Age: Inquisition* and *Battlefield Hardline*, two big releases due last October, to shape them up. In January, EA delayed an expansion pack for the most recent version of *The Sims*, and pushed back its next PGA Tour game, the first in years that won’t include Tiger Woods, from March until sometime between April 1 and June 30. *Dragon Age: Inquisition* came out in November to rave reviews and, according to EA, record sales. The March 17 release of *Battlefield Hardline* will be the next test of whether EA’s remedial policy is paying off.

These days, EA’s bosses eschew demos in favor of rough working prototypes, says Chief Executive Officer Andrew Wilson, who took over in September 2013 amid the string of misfires. “We’re not dissuaded when we don’t see a pretty graphic,” he says.

In January, EA reported \$4.34 billion in annual revenue, a 5 percent gain from 2013, and its share price has tripled to about \$55 since the ouster of Wilson’s predecessor, John Riccitiello. Wilson, a longtime product chief who ran EA’s sports game division, says his hands-on experience with games is an advantage. Previous heads, he says, “weren’t game makers.”



UFC



NBA Live



PGA Tour



FIFA 15

◀ EA's dozen acquisitions under Riccitiello included \$1 billion for social and mobile games such as Bejeweled. "In retrospect, I wish we paid less for some things," he says. But he rejects the notion that he didn't know enough about gaming, saying, "I've run studios directly for a number of years and am very familiar with game development and the development process."

EA's online and mobile division now accounts for fully half of the company's revenue. "The shift to digital, they absolutely did it under Andrew, but it was all in place under Riccitiello," says Michael Pachter, an analyst at investment firm Wedbush Securities. Aside from the game delays, the rest of Wilson's strategy looks a lot like his predecessor's. He and Chief Financial Officer Blake Jorgensen, a Riccitiello holdover, have continued the cost-cutting that Riccitiello began on his way out. The head count peaked at about 9,300 two years ago, often fluctuating depending on upcoming releases; now it's more consistently at about 8,000. Wilson and Jorgensen consolidated marketing teams and shuttered EA's used-games business.

The company is losing ground in some areas. Its pro basketball game, NBA Live 15, has been outsold since its October release by **Take-Two Interactive's** NBA 2K15, according to data published by researcher NPD Group. Milham, the EA creative director, says Wilson has made developers more responsive to early feedback from beta testers and social media. "We've had the information for a while, but a whole lot of times we'd go, 'Yeah, well, live and learn,'" he says.

"We're near the end of the turnaround," Wilson says. Battlefield Hardline

may prove him right—or wrong. It's part of a series that's been a perpetual also-ran to No. 1 **Activision Blizzard's** Call of Duty franchise. The bug-ridden Battlefield 4 sold about 10 million copies at its 2013 launch; Todd Mitchell, an analyst at Brean Capital, estimates that Battlefield Hardline will notch 4.4 million. "It's very important that we show we learned from the issues with Battlefield 4," says Patrick Söderlund, executive vice president of EA Studios. "When you spend millions of dollars making a game, the game should be successful." —*Danielle Burger*

The bottom line EA's revenue increased 5 percent in 2014 as the game company delayed releases to fix bugs.

E-Commerce

Paying by the Second Instead of the Click

▶ Data analytics is (slowly) selling advertisers on new rates

▶ The standard is "time that an ad is in front of someone's face"

In 2014 digital subscriptions to the *Financial Times* grew 21 percent, more than twice the rate of overall circulation, and the digital audience accounted for 70 percent of paying readers. Still, the salmon-colored business newspaper faces the same problem as all publications: Print ad rates are far higher than digital ones. But **FT Group** Chief Executive Officer John Ridding says its secret weapon is audience engagement. "Our

\$50_k

Cost of 400 hours of viewing time per ad on the *Economist's* mobile app

audience is not just growing," he told shareholders on Feb. 27. "People are spending more time with the *FT* and consuming more content." To take fuller advantage of those eyeballs, the paper's website has started

to change the way it sells ads.

The *FT* is the first major publication to try charging advertisers based on how long readers spend looking at a screen where their ads are displayed, rather than on how many times they click on the Web pages where the ads appear. Online data analytics companies argue that the conventional system of clicks inevitably favors websites that can get readers to click without inducing them to read long enough to register ads. "What matters is the amount of time that an ad is in front of someone's face," says Tony Haile, CEO of analytics firm **Chartbeat**, which is working with the *FT* to test the time-viewed model.

For years companies such as **Facebook** have made changes to their websites and apps based on so-called attention metrics, such as how fast readers scroll down a Web page and where their cursors hover while they do. It's been tougher to convince advertisers that this kind of analysis really measures whether a person was actually looking at the screen when an ad appeared, so most websites' sales departments have stuck with rates based on unique viewers or total page views.

Hourly ad rates have been Haile's favorite subject for much of the past year, and his sales pitch dovetails with the *FT's*, which has long focused on time spent with the paper instead of circulation. "We'd rather have 500,000 people come to our site and each spend 20 minutes than have 1 million people each come for one second," says Brendan Spain, the *FT's* U.S. commercial director.

So far the advertising experiment is limited. Since the *FT* began working with Chartbeat in the fall, six Fortune 500 companies have signed up for ad campaigns billed by time viewed, according to Spain, who wouldn't provide rates or total spending. Those clients accounted for about 7 percent of the website's ad inventory

Quoted

"Business, much like life, is not a movie, and not everyone gets to have a storybook ending."

Om Malik, who founded pioneering tech news site **Gigaom** in 2006, in a March 9 blog post elaborating on a surprise announcement that the site cannot pay creditors and has ceased operations



Innovation

Smart Lights

in December. Still, some of those early advertisers, which include **BP**, **BlackRock**, and **Microsoft**, say they like the results. BP spokesman Robert Wine says the campaign his company paid for consisted of ads spotlighting individual executives and required more attention than online readers typically have to offer. “Websites these days are extremely busy,” he says. “Paying for time feels like a fairer trading mechanism.”

The tricky part is determining what counts as viewing an ad, says the *FT*’s global sales director, Dominic Good. The company rings up viewing time only if an ad stays on a reader’s screen for at least five seconds. Good says his team is considering lowering that bar to three seconds.

The *Economist*, which is 50 percent owned by the *FT*, is working with Adobe Systems’ analytics subsidiary, **Omniure**, to run its own experiments with time-viewed ads. For \$50,000, ads appear in three editions of the magazine on its smartphone and tablet apps in North America, and are guaranteed to keep running until they’re viewed for a total of 400 hours, says David Kaye, who piloted the ads as the *Economist*’s chief revenue officer. That compares with \$45 to \$90 per 1,000 clicks for a typical ad on the site. Again, advertisers have been slow to sign on. Fewer than 20 have bought into the system since its September launch, he says. “I’m shocked that it hasn’t gotten more takeup,” he says.

Haile acknowledges that time-viewed ad rates will likely take years to catch on, if indeed they ever do. Mainstream ad agencies would have to adjust their accounting; clients would need to accept different sets of numbers. Still, he says, “we’re already further ahead than I ever thought we would be.” Susan Athey, a Stanford business school professor who studies online advertising, says publishers, advertisers, and readers all stand to benefit from a system based more on longer reads of fewer Web pages. “If publishers’ revenue depends on advertising impressions and page views,” she says, “there is an economic incentive to sacrifice user experience by forcing readers to click too much.” —*Gabe Friedman*

The bottom line Analytics companies such as Chartbeat and Omniure are trying to remake Web ad rates based on time viewed.

Form and function

LED lights equipped with a microprocessor, sensors, and radio transmitters can track a building’s occupancy, temperature, and other conditions, then pass their analysis along to residents or building managers.

Innovator Anthony Catalano

Age 68

Founder and chief technology officer of Terralux, a 50-employee commercial lightmaker



Setup Terralux customizes its data-gathering software for each building—a chemical plant has different needs than a college dorm—and installs the lights in existing fixtures. Each light wirelessly sends its analysis to a central online dashboard.

Origin Catalano, a former director at the National Renewable Energy Laboratory, founded the Longmont (Colo.) company in 2003. Chief Executive Officer Steve Hane says this year’s revenue will be close to \$20 million.

Market Commercial building owners and tenants spent about \$68 billion on energy-efficiency retrofits last year, according to Navigant Research.

LEDs

Communications module

Funding Terralux has raised about \$40 million from investors including Generation Investment Management, co-founded and chaired by Al Gore; EnerTech Capital; and others.

Price At \$50 to \$250 each, depending on size and sensors, the LEDs aren’t cheap, but Hane says he’ll cut the price by two-thirds within a year.



Use Building managers track changes in heating and air quality, as well as lighting, on the dashboard. Terralux says the lights can help cut energy use by as much as 90 percent and last at least seven years.

Next Steps

Terralux began selling the LEDs in late 2014. Early clients include Princeton and the California Institute for Energy and Environment. The company is working with utilities to cut peak-hours energy demand and is adding more analysis software in its lights. Nadarajah Narendran, director for research at the Lighting Research Center at Rensselaer Polytechnic Institute, says analytics are paramount: “It’s not the data but the intelligence that matters to people.” —*Nick Leiber*

*First things first:
Dress right for the part
I know they're fresh,
But you've gotta leave your
sneakers in the car
Even if it's casual,
Wear a suit jacket and tie
Or they'll see your amazing
résumé then stamp it
"DENIED"*



Be a Grand Pooh-Bah Of Probability

► In need of young recruits, insurers turn to rap videos and T-shirts

► The industry “lacks its ‘Got milk?’ campaign”

At his high school in Louisville, Jonny Blount was a football star wooed by college coaches. Then, going into his senior year, he tore a ligament in his knee and started to think more about his future. He’s now majoring in risk management and insurance at Eastern Kentucky University. Internships at **State Farm** and **Lloyd’s of London** have helped him pay for college, and he’s angling for a full-time job in the industry when he graduates this spring. “I got along without football,” he says. “Insurance has just really opened doors for me.”

Blount is a rarity, and the insurance industry knows it. About half its workforce in the U.S. will be nearing

retirement age in the next decade. That, paired with normal growth and turnover, stands to create at least 500,000 job openings by 2022, according to an insurance industry analysis of Bureau of Labor Statistics data. The stats have insurance companies worried that millennials aren’t applying for entry-level jobs because they don’t know about them—or, worse, think the industry’s dull.

Hoping to be hip, **Allstate**, **State Farm**, and four dozen other companies and organizations have banded together to highlight the bounty of career opportunities they offer. Called **MyPath**, the project is led by the **Institutes**, a nonprofit that provides

education for the risk management and property-casualty insurance industry. Ads have run on Pandora Internet radio, Facebook, and Twitter, pointing millennials to a website that groups internships by job function (“Actuary: Also known as the Grand Pooh-Bah of Probability”). The goal is to get a younger set excited about working as agents, underwriters, and claims officers.

“The insurance industry lacks its ‘Got milk?’ campaign,” says Shawn Tubman, vice president for talent acquisition at **Liberty Mutual**, one of the insurers participating in **MyPath**. His company and others are coming up with offbeat ways to draw in millennials in

addition to the industrywide initiative.

In December, Liberty Mutual started distributing a four-minute recruitment video to colleges. In it, two business-suit-wearing rappers and an auto-tuned diva perform a song offering **tips for interviewing**. It's hard to imagine a college student adding the song to a playlist. Still, Tubman says it's a way for Liberty Mutual to stand out as companies in all industries vie for young people with analytical skills. As of early March the music video had more than 11,000 views on YouTube. (To put that in perspective, a YouTube video showing actor Ryan Gosling dancing as a 12-year-old recently got more than 500,000 views in three days.)

Allstate has begun to supplement its campus recruiting with what it calls "branding events." The "Good hands" insurer hosts trivia nights, passes out free food on the quad, and sponsors hackathons to attract computer science majors. Its recruiters no longer wear business attire on campus, either. Instead, they have T-shirts that say, "Job hunting is Mayhem," in reference to an accident-prone character in the insurer's ads. "There's somewhat of a war for talent on campus," says Loren Leeberg, university relations manager for Allstate. Students are "very familiar with our external brand, but we want to educate them on the company."

The idea of rebranding a whole industry for recruiting purposes isn't new. The American Institute of Certified Public Accountants has a campaign similar to MyPath called Start Here, Go Places that's meant to inspire young people to become accountants. A companion website, thiswaytocpa.com, takes a more aggressive tone. Sample article: "Bean counter, shmean counter: Five bulletproof reasons the CPA stereotype is way off."

Still, changing public perception is a challenge, and nobody's more aware of that than young people who choose to work in insurance. "A lot of people think it's boring," says Jake Falandays, a 2010 University of Delaware graduate who's an actuarial analyst at **Tokio Marine North America Services**. Part of the problem, he says, is that most people don't know much about the industry. Falandays's girlfriend uses the movie *Along Came Polly* to explain

his job to friends, he says, referring to the 2004 romantic comedy starring Ben Stiller as an actuary who falls for a risk-taking former classmate played by Jennifer Aniston.

The real appeal for Falandays is simple: The insurance industry offers work-life balance and job security. The pay can be pretty good, too, and it goes a long way in some of the small and midsize cities where insurers operate. Underwriters had median salaries of almost \$63,000 in 2012, according to BLS data. For actuaries, the figure was \$93,680.

Blount talks up that side of the industry when he tells friends at Eastern Kentucky about his chosen career. In addition to his internships, he's earned scholarships from the industry to help fund his college tuition. "I haven't paid a dime for my senior year," he says. "There's a lot of money in insurance."
—Noah Buahyar

The bottom line The insurance industry is desperately seeking hipness to help fill more than 500,000 job openings by 2022.

Real Estate

Detroit's Latest Crisis: Property Taxes

► Thousands may lose their homes for nonpayment

► "They may be in foreclosure three days after they buy the house"

Cindy Gresham paid \$6,000 in cash in 2010 for her house on Detroit's West Side and set about replacing missing doors, window panes, and bathroom fixtures. Now the single mother of three will probably lose the home, which came with a surprise \$8,589 unpaid tax bill that has since tripled. The brick Tudor-style house is among about 52,000 Detroit properties Wayne County may seize for unpaid taxes on March 31. "The bills keep piling up," says Gresham, an unemployed auto-worker whose 8-year-old daughter needs treatments twice a month to remove growths from her respiratory tract. "You can never get caught up."

Detroit has emerged from the largest municipal bankruptcy in U.S. history with new leadership, a downtown restocked with young professionals, and a public-relations slogan: "America's great comeback city." While the city center, nestled on the Detroit River, is coming alive with corporate workers, foodie hangouts, and hipster bars, the recovery is largely invisible in the rest of the city, where 95 percent of the population lives. "Detroit is at risk of becoming two different cities: one thriving and one continuing to decline," says Alan Mallach, senior fellow at the Center for Community Progress.

One of the chief obstacles to recovery outside the city center is turning out to be property taxes. Of the 50 largest U.S. cities, Detroit has the highest property taxes for a \$150,000 home, at \$4,988 on average, according to a 2014 study by the Minnesota Center for Fiscal Excellence. Detroit's assessments often don't reflect the 48 percent plunge in home values over the past decade. The annual property tax of about \$2,000 on Gresham's home reflected a market value of almost \$40,000 in 2014, according to city records.

Making matters worse, Gresham bought her home with a quitclaim deed, which transfers ownership and can leave the new buyer responsible for any back taxes, according to Kenneth Silver, a real estate attorney with Hertz Schram in Bloomfield Hills, Mich., who's not involved with Gresham's case. "It's the quickest and easiest way to get a transaction done, with minimum risk to the seller," Silver says. "It's maximum risk to the buyer."

Buyers like Gresham rarely get the help "most middle-income people get," says Ted Phillips, executive director for United Community Housing ►

A Flood of Foreclosures

Wayne County may seize as many as

52k

owner-occupied, investor-owned, and abandoned Detroit homes on March 31



◀ Coalition, which advocates on behalf of delinquent homeowners. “They don’t have an attorney, they don’t have a Realtor, they don’t have a title company,” Phillips says. “They believe the handshake. They believe the house is perfect and doesn’t have back taxes. As a result, they may be in foreclosure three days after they buy the house.” Even buyers who don’t inherit back taxes can find themselves struggling to pay the current bills at the same time they’re working on repairs to make the homes livable.

State law allows homeowners whose household earnings put them below the poverty line to avoid paying property taxes if they file necessary paperwork each year. But the rule isn’t widely known, and filing the documents can be complicated, according to Margaret Dewar, professor of urban and regional planning at the University of Michigan at Ann Arbor. Someone who misses the deadline can’t get the exemption retroactively, so Gresham isn’t eligible.

Many investor-owned properties also have tax troubles. Investors, some from Europe and Asia, have bought Detroit properties for as little as \$500 at auction. Most have since fallen behind on taxes, according to Mark Skidmore, a local-government finance and policy professor at Michigan State University. The county can take back homes bought at auction when owners allow taxes to go unpaid for a year. It’s three years for other homes.

Mayor Mike Duggan has been lowering tax valuations after a city review showed that the majority of Detroit was overassessed by as much as 20 percent. He’s also trying to boost property values. The city sued 71 owners of dilapidated properties in the West Side neighborhood near Marygrove College, for example, and has gotten 43 owners to fix them up or hand them over. Duggan declined to comment.

Gresham was one of 5,000 homeowners who went to the city’s Cobo Center in late January and early February to negotiate payment arrangements for tax balances. She says county officials told her she could avoid foreclosure if she paid \$963 on her tax bill and agreed to pay \$321 a month toward her balance, along with about \$200 she owes each month in current taxes. That’s money she doesn’t have. Of the 18,000 owner-occupants facing tax foreclosure, 7,500 have signed up for payment plans, according to David Szymanski, chief deputy treasurer for Wayne County.

Gresham’s future will likely be determined this fall, when the city plans to hold its next auction of foreclosed properties. If an investor buys her house, the Gresham family might be evicted or offered the chance to stay on as renters. If the property doesn’t sell, ownership will be transferred to the Detroit Land Bank Authority, set up by the city to deal with distressed houses. The Land Bank already owns about 20,000 houses, many from previous tax foreclosures. It is coming up with a plan to “keep as many people in their homes as possible,” says spokesman Craig Fahle. For Gresham, the seemingly impossible payment plan is her last option. “If this doesn’t work, I don’t know what I’ll do,” she says. “When I bought the house, I thought it would be everything. Next is the streets.” —*Prashant Gopal*

The bottom line Only 7,500 of the 18,000 Detroit residents facing the loss of their homes have signed up for tax payment plans.

Advice

A Split Over Protecting Investors

- ▶ The Labor Department is moving ahead of the SEC on broker rules
- ▶ The commission’s “actions have been stunningly absent”

The Obama administration wants the Department of Labor, which oversees employee savings plans such as 401(k)s, to propose sweeping regulations that would curb conflicts of interest among brokers who handle investments for people saving for retirement. The

Securities and Exchange Commission has long considered imposing similar rules on all brokers but so far shows no sign of enacting them.

At issue is whether brokers should adhere to a fiduciary standard—which would require them to put clients’ interests ahead of their own. Looser rules, now in effect, only require them to recommend investments that generally fit clients’ needs and tolerance for risk. Investment advisers are already bound by the fiduciary rule.

Proponents of the fiduciary rule say investors are vulnerable because brokers often receive compensation from mutual funds and other companies in return for selling their products. White House economists have said investors lose as much as \$17 billion a year by putting money into inferior products recommended by self-serving brokers. “The SEC holds itself out as the agency that serves to protect investors, but their actions have been stunningly absent,” says Lynn Turner, a former SEC chief accountant who supports the stepped-up standard.

The financial-services industry is trying to use the lack of agreement to derail the Labor Department’s proposal. Business groups and many Republican lawmakers argue that the SEC, with decades of experience overseeing brokers, should be first to develop new regulations. The Labor Department’s rules would create confusion, they say, and restrict brokers’ ability to work with small investors. “This is squarely in the SEC’s jurisdiction, and obviously we think the agency should be actively engaged,” says Francis Creighton, chief lobbyist for the Financial Services Roundtable. “If the SEC saw a problem with how investment advice is given, I’m sure they would act on it.”

The Labor Department has spent five years trying to devise a fiduciary rule. After its first version stalled in 2011 under industry opposition and bipartisan criticism, Labor revamped the proposal. Although details haven’t been released, President Obama endorsed the plan in February at an event hosted by AARP. The department is set to issue the proposal for public comment in the next few months. Jason Surbey, a Labor Department spokesman, says the proposal has been developed with the SEC’s help.

The administration’s decision to

move ahead leaves SEC Chair Mary Jo White balancing conflicting demands from fellow commissioners, industry executives, consumer groups, and lawmakers. Late last year the agency's staff presented White with options for new rules, including requirements holding brokers to the same fiduciary standard as investment advisers, according to two people who asked not to be named because the deliberations are private. Another possibility, the SEC's staff told White, would be to require brokers to disclose their conflicts of interest as investment advisers do now.

The staff also advised White that a strict rule would be opposed by Wall Street, the people say. White says the SEC and the Labor Department aren't moving jointly because they have different responsibilities and legal authorities: Labor answers to the White House; the SEC is an independent agency. Any SEC rules have to "respect those differences," she says. White doesn't feel pressure to speed up: "We're very focused on our own decision whether to proceed." She may disclose her decision later this month, according to two people familiar with her thinking.

The SEC's two Republicans, Daniel Gallagher and Michael Piwowar, oppose the effort. "There is no time and no proven need to pursue a fiduciary-duty rulemaking, unless of course we are focused more on appeasing the White House than on being an independent agency," Gallagher says.

Commissioner Luis Aguilar, a Democrat who supports issuing fiduciary requirements as soon as possible, says he hasn't seen "any tangible movement" and isn't convinced the SEC will advance its own plan.

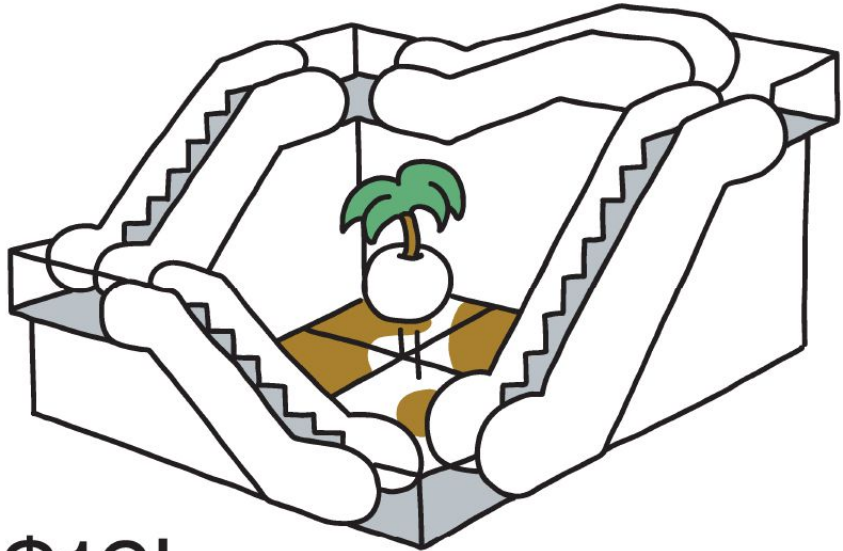
White has sharpened her understanding of the points that divide investors and the brokerage industry, says Barbara Roper, director for investor protection at the Consumer Federation of America, who met with her in early February. "It signals to me that even with a very full agenda of issues, she's been giving attention to it," says Roper. "And that's a good thing."

—Dave Michaels and Robert Schmidt

The bottom line The financial industry is resisting attempts to require brokers to put clients' interests ahead of their own.

Bid/Ask

By Kyle Stock



\$16b

Simon Property doubles down on the American mall. Simon, the largest mall owner in the U.S., is bidding for Macerich, No.3 in the business. By adding Macerich's 59 high-end shopping centers, Simon would gain an advantage in lease negotiations with retail tenants. With consumers increasingly shopping online, only two malls are under construction in the U.S.

\$2.8b

Verisk Analytics buys an energy consulting company.

Scotland-based Wood MacKenzie advises about 800 commodity giants, financial institutions, and governments.

\$2.4b

Bain acquires a network-security giant. Blue Coat Systems was taken private in 2012 for \$1.3 billion. Data leaks in the years since have fueled its growth.

\$1.6b



Brother Industries bags a label maker. The Japanese company, known for printers and sewing machines, is buying the U.K.'s Domino Printing Sciences.

\$1.4b

Alcoa purchases RTI International Metals. The aluminum company is adding a leading titanium maker to boost business from aerospace companies.

\$915m

Greystar Real Estate stocks up on U.K. student housing. The company is getting 2,375 beds in tony London neighborhoods from Round Hill Capital.

\$300m

Maximus buys Acentia. The deal increases Maximus's reach in providing software to help the federal government process health-care claims.

\$278m



Chesapeake Lodging Trust books the James Royal Palm. Seller KSL Capital Partners bought the South Beach hotel for \$130 million in 2011 and renovated it.

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MOBILIZING
YOUR
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March 16 — March 22, 2015

Tracking the Enemy Within

► Companies are monitoring employees' work habits and e-mail to neutralize insider threats

► "People said, 'Wow, if that happened in the NSA, it could happen to us'"

Whether you call Edward Snowden a traitor or a whistle-blower, he earned one label about which there's no debate: insider threat.

Guarding against such risks is an expanding niche in the security industry, with at least 20 companies marketing software tools for tracking and analyzing employee behavior. "The bad guys helped us," says Idan Tendler, the founder and chief executive officer of **Fortscale Security** in San Francisco. "It started with Snowden, and people said, 'Wow, if that happened in the NSA, it could happen to us.'"

The problem predates the Internet: the salesman who takes the entire customer list with him when he quits, or the engineer who makes off with key product designs. But technology has only made it easier; now the salesman e-mails the data to his Gmail account, and the engineer can put product designs on a USB drive. In an embarrassing episode for Morgan Stanley, the bank dismissed an employee earlier this year for taking information about an estimated 350,000 clients of its wealth-management division.

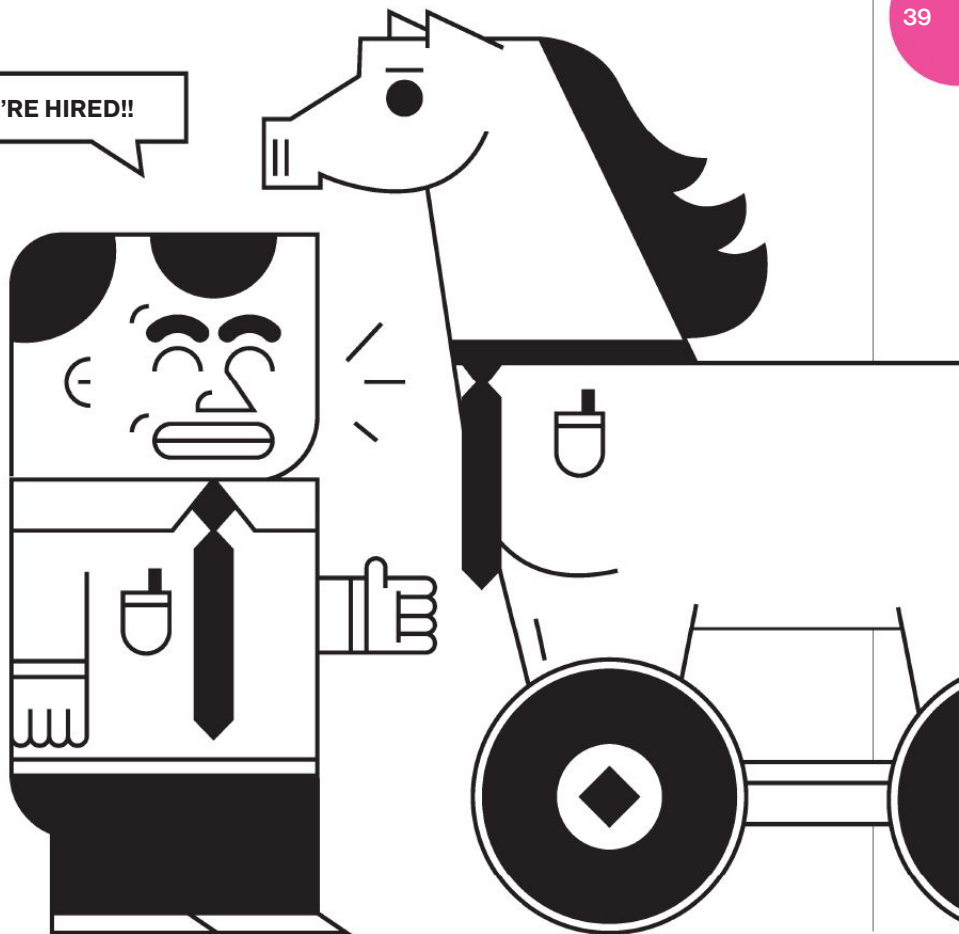
Companies are also realizing that tracking insiders may improve their odds of catching outside hackers. While investigations into the breaches at **Sony** and **Anthem** are ongoing, it's likely that attackers hijacked employee passwords and logins, then used them to navigate the companies' computer systems to find and steal data. These methods are the reason it takes a business more than 200 days, on average, to detect breaches, according to **FireEye**, a cybersecurity company. "Hackers become employees when they get inside," says Avivah Litan, an analyst at research firm Gartner. "So the name of

the game is constant surveillance."

Fortscale and competitors such as **Securonix**, based in Los Angeles, sell software that pulls data from a company's computer systems and feeds it through algorithms to create a profile of each employee. The software constructs a base line showing what's normal behavior for that user: where and when he logs in, which programs he uses, which company databases he accesses

regularly, and which external websites he browses. It also generates a risk score for users based on what danger they may pose to the organization. With "normal" established, it becomes much easier to spot suspicious activity—for example, a worker downloading thousands of documents from a database she has permission to use but never has before. "What we're trying to do is get this situational awareness," says Igor

YOU'RE HIRED!!



◀ Baikalov, a former security executive at Bank of America and chief scientist at Securonix. “The next step is predictive analytics: How can we detect the small changes and stop the bad thing from happening?”

Dtex Systems, a security company based in San Jose, monitors insider threats by placing software on desktops as well as company-issued laptops. CEO Mohan Koo says that in the first 30 days of surveillance at a financial exchange, the system identified six people who were getting ready to leave with highly sensitive data. Employees heading for the exit start doing things they hadn’t before, such as changing their e-mail habits, Koo explains.

Other approaches delve more deeply into psychology. **Stroz Friedberg**, a New York-based consulting firm that specializes in digital forensics, is rolling out software called Scout, which evaluates users through the content of their e-mails and other communications using linguistic and behavioral analysis techniques developed by the FBI. The software establishes a base line and then scans for variations that may signal that an employee presents a growing risk to the company. Red flags could include a spike in references to financial stresses such as “late rent” and “medical bills.”

Edward Stroz, the firm’s founder and a former FBI agent, says that while companies may have found this idea too intrusive in the past, he’s seen a change in perception in the past year. He’s still careful when discussing the software, describing it as a way to help employers build a “caring workplace.” He offers the scenario of a star trader at a bank

who’s disappointed with the size of her annual bonus. Instead of being blindsided when she defects to a rival, a bank using Scout could identify

her discontent early and make sure she doesn’t take sensitive data or other team members with her.

Looming in the background is the question of how to balance employees’ privacy with more intensive monitoring. Dtex says it makes user data anonymous, replacing names with codes and matching names to activity only when necessary for an investigation. That helps

Crime Inside Job

Security breaches that make headlines usually involve nameless hackers breaking into corporate networks to plant malware, scoop up credit card information, or extract juicy e-mails and confidential corporate records. Less public are breaches by insiders—departing employees or disgruntled contractors making off with client lists or blueprints for products. In the U.S., the frequency of insider attacks has escalated sharply since 2005.

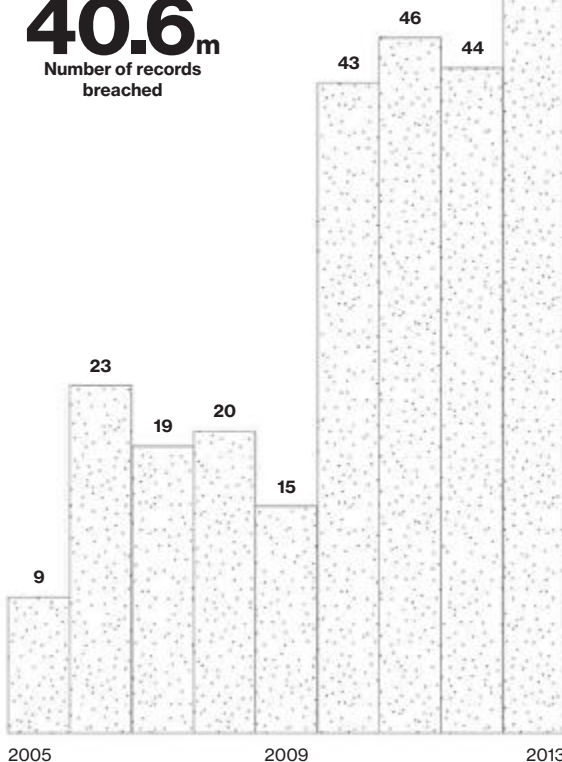
—Keith Collins and Shawn Hasto

Number of data leaks attributed to company insiders soared in 2013.

Reported incidents

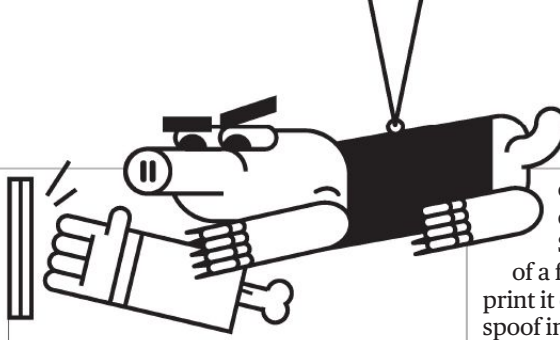
329
since 2005

40.6^m
Number of records breached



Breaches by industry





companies monitor effectively and comply with privacy laws in countries such as Germany and Switzerland, Koo says. Randy Trzeciak, a cybersecurity specialist at Carnegie Mellon, says it's important for companies to keep their lawyers in the loop and to outline a clear, well-communicated, and consistently enforced policy, so there's no perception of selective monitoring.

Some of the methods at companies that hire Securonix make even Baikalov wonder how much is too much. He cites the practice of matching information on user behavior online with feeds from video cameras and other systems that monitor physical locations. Some companies, he says, have created ticket systems so employees can report suspicious behavior by colleagues. "Is it too much, or is it actually the right amount of diligence?" he says. "I'm really curious how much we will get out of it. It's really the extreme in kind of Orwell-like monitoring."

—Dune Lawrence

The bottom line About 20 companies sell tools to monitor employee behavior—from e-mail habits to database access—and flag risks.

Authentication

Mastering the Art of Palm Reading

► Criminals are figuring out how to fool biometric systems

► "Your face is literally recorded everywhere you go"

Worried about ATM fraud, several Brazilian banks began rolling out machines equipped with fingerprint readers. Undeterred, criminals began severing the fingers of account holders to gain access to their money, says Frank Natoli, chief innovation officer at **Diebold**. One of the world's top suppliers of ATMs, Diebold is working with some of the country's banks to switch over to palm-vein-recognition systems. "We made sure people can't abscond with other people's digits," he says.

As biometric authentication systems for banking and mobile payments go mainstream, criminals are honing techniques—some gruesome, some elegant—to overcome the systems' much hyped security. "The faster the adoption of

biometrics, the more attempts we'll see, in the same way that cyberfraud started taking off when e-commerce was on the rise," warns Cyrille Bataller, a managing director at Accenture who consults with government clients.

Fraudsters will have no shortage of targets. The newer generations of iPhones are equipped with **Apple's** Touch ID fingerprint reader. The technology works with the mobile payment system the company introduced in September. **PayPal** has beefed up security on its mobile app, taking advantage of fingerprint sensors installed on some **Samsung Electronics** devices. **Fujitsu** unveiled on March 2 an iris-recognition camera small enough to fit into a smartphone. Later this year, **MasterCard** and **Royal Bank of Canada** will be testing a wristband called Nymi that's embedded with an electrocardiogram sensor.

By 2020 every smartphone, tablet, and wearable device will have an embedded biometric sensor—up from fewer than 7 percent today, according to Acuity Market Intelligence. Banking and e-commerce are two of the industries driving demand. Within five years, 50 percent of mobile commerce and as much as 10 percent of in-store payments will be authenticated with biometrics, estimates market researcher Goode Intelligence.

Fraud rates on transactions using Apple Pay are higher than on credit cards, says Richard Crone, chief executive officer of Crone Consulting, a payments researcher. Criminals can, for instance, associate their fingerprints with stolen credit card numbers. Apple didn't respond to a request for comment.

Ben Schlabs, of Security Research Labs in Berlin, says he and colleagues succeeded in fooling facial-recognition software by holding up a photo of a person's face to the camera, then waving a pen in front of it. The system mistook the movement for blinking, and the photo was accepted for a living image. "This may be the worst idea ever," Schlabs says. "Your face is literally recorded everywhere you go. It's the only part of your body that you never cover up." Thwarting fingerprint readers is a tad more complicated. "Copies

of your fingerprints are left on every glossy surface you touch," Schlabs says. "You can get a copy of a fingerprint, edit it in Photoshop, print it out, etch it, and have a wood glue spool in three hours of work."

Biometric systems suffer from the same vulnerabilities that afflict repositories of credit card numbers and other personal data. While images of fingerprints and other identifiers are usually stored on users' devices, some retailers and banks may begin warehousing the information. Jennifer Lynch, senior staff attorney at the Electronic Frontier Foundation, a consumer advocacy group, points out that people affected by the Target breach at least had the option of canceling their credit cards. If the hackers had also made off with their prints, what then? Says Lynch: "There's a real problem, and we haven't dealt with it as a society yet." —Olga Kharif

The bottom line By 2020 half of e-commerce transactions over mobile devices will be authenticated using biometrics.

Startups

The Big Business of Smashing Bugs

► New marketplaces let companies tap the skills of ethical hackers

► "Seventy to 80 percent of the bugs I find are not detectable by software"

Frans Rosén is a tech entrepreneur by day and a bug bounty hunter by night. The co-founder of **Detectify**, a security startup in Stockholm, spends his evenings scouring websites for vulnerabilities cybercriminals could exploit. Since he began moonlighting in 2012, he's collected \$100,000 from companies in reward for tipping them off to flaws he unearthed. "Seventy to 80 percent of the bugs I find are not detectable by software," says Rosén, 29, who manually combs through line after line of code.

As the pace of app rollouts, website launches, and software upgrades picks up, more companies are relying on freelancers to uncover flaws. When spotted by malicious hackers, defects can open the door to devastating zero-day attacks.

Google and Microsoft have

◀ long offered rewards to those who report serious flaws in their products. More recently they've been joined by a handful of startups that run bug bounty programs for other businesses. "Any company that is creating technology will have bugs," says Alex Rice, who managed Facebook's bug bounty program before co-founding **HackerOne** in 2011.

The San Francisco-based startup has paid a total of \$2.2 million in rewards on behalf of clients including **Twitter**, **Secret**, a social media platform, and mobile payment company **Square**. It makes money by charging customers a 20 percent commission on top of each bounty. Customers determine the size of the awards. HackerOne's network of independent hackers spans 150 countries, according to the company. Rosén says he has HackerOne to thank for his biggest haul: \$1,600 for a flaw he unearthed in Vine.com, the video-clip platform owned by Twitter.

Yahoo! ran its own bug bounty program for years, rewarding hackers with mugs and T-shirts. In 2013 it introduced a virtual "wall of fame" and monetary awards. "We created different tiers of bounties, from \$50 to \$15,000, established case by case based on the seriousness of threat," says Ramses Martinez, Yahoo's senior director for investigations. After meeting with Rice, Martinez decided last year to outsource the program to HackerOne. "It really streamlined the whole process," he says. "We're working with folks we normally wouldn't work with because they are spread around the world."

The cybersecurity market is projected to expand from \$95.6 billion in 2014 to \$155.7 billion by 2019, according to MarketsandMarkets, a consulting firm. HackerOne "is the perfect solution at the right time," says Bill Gurley, a partner at **Benchmark Capital**, which last year invested \$9 million in the company. HackerOne competes with a handful of other startups, including **Bugcrowd**, **Synack**, and **Crowdcurity**.

While its client roster is heavy with tech companies, HackerOne is also chasing customers in the health, banking, retail, and telecom industries. Rice acknowledges that winning over major

companies won't be easy, despite high-profile hacks at Home Depot, Sony Pictures, and JPMorgan Chase. Letting a third party like HackerOne run your bug bounty program "is more innovative than most public companies are ready for," he says. —*Serena Saitto*

The bottom line HackerOne is among a handful of startups that connect companies with hackers to test products for bugs.

Mobile

Hackers Have Figured Out Your Number

▶ Trade fairs offer easy prey to hackers breaking into handsets

▶ Crooks don't "have to be in the same room, or even the same building"

If visitors to the Mobile World Congress in Barcelona in early March didn't know how easy it is to hack a smartphone or tablet, they might now. A team from Prague antivirus software maker **Avast** set up a public Wi-Fi hotspot that was left unlocked. Hundreds of unsuspecting victims connected to the network, and confidential data such as passwords for websites and apps flooded a screen at the Avast booth. The site was overwhelmed and had to be shut down. "The experiment worked a little too well," says Avast researcher Filip Chytry, who designed the stunt to highlight the danger of free Wi-Fi.

Although Avast posted signs alerting passersby to the network and immediately deleted the purloined information, the trick proved how easy it is for real cybervillains to steal data using a rogue network masquerading as a legitimate hotspot, Chytry says. Almost a quarter of mobile devices are exposed to security attacks after 30 days online—either via Wi-Fi or cellular networks—and that rises to more than two-fifths after four months, according to Skycure, a wireless-security company. "There is growing awareness and concern about the vulnerability of mobile devices," says Yaron Blachman, a cyberspecialist at consulting firm PwC in Israel. "We see it at every company we work with."

Trade shows like MWC, the wireless industry's biggest annual conclave, are particularly dangerous. Executives racing to close a

deal may be tempted to override their companies' security measures. Crooks create official-looking sham hotspots before a conference opens, putting them on the show floor and in after-work locales such as bars and clubs, says Jayson Street, of Pwnie Express, a computer security company in Boston. "The attacker doesn't have to be in the same room, or even the same building," he says.

Israeli startup Coronet Security says it's likely the nude photos of celebrities such as Jennifer Lawrence and Kirsten Dunst that swept the Web last year were stolen via a compromised network at the Emmy Awards. Russian security firm **Kaspersky Lab** in November uncovered a scheme in which criminals hijacked Wi-Fi networks at luxury hotels in Asia to intercept guest communications. The bad guys uploaded malware, disguised as benign updates, which let them steal passwords and other data.

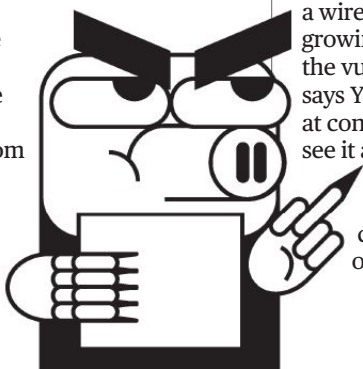
The problem goes beyond Wi-Fi. Because of the huge amount of wireless traffic at trade fairs—MWC attracted 93,000 people this year—some calls are routed through older 2G networks. With encryption that's decades old, they can be cracked within seconds, a problem users can do nothing to avoid,

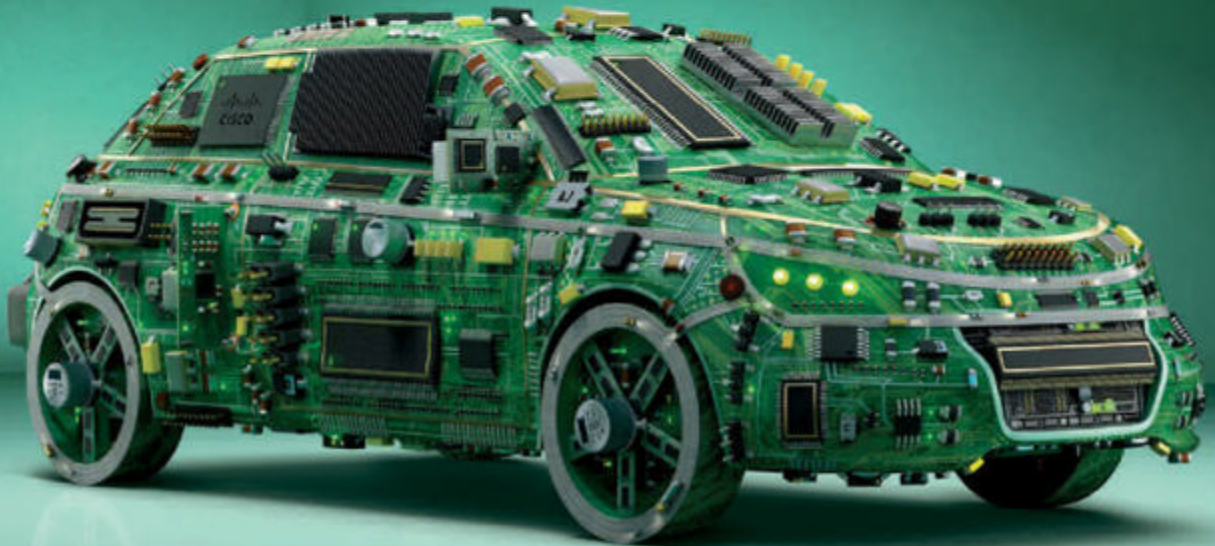
says Karsten Nohl, founder of Security Research Labs in Berlin. Even 3G or 4G networks, which feature more robust security, can be perilous. When an executive makes a mobile call while traveling abroad, the host

carrier asks the user's regular service provider for the account's encryption key to complete the communication. Few carriers verify the legitimacy of such requests, fulfilled in seconds, and they sometimes provide keys to criminals, Nohl says. "Mobile security is treated like safety in the early days of the car," he says. "Nobody thought about seat belts or air bags as long as every generation of cars was faster and cooler than the last one." —*Cornelius Rahn and Gwen Ackerman*

The bottom line Hackers are exploiting carelessness and weakly secured wireless connections to steal passwords and other data.

B Edited by Cristina Lindblad
Bloomberg.com





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US!
BY FELIX GUILLETTE



SPRINKLY

CONTEMPLATES LIFE WITHOUT ITS BIGGEST ACT

“TALENT

One day last summer, Howard Stern ripped into his bosses at SiriusXM on his morning radio show. He accused them of gamesmanship, of treating him like a common employee, of disrespecting his talent. “Whenever you f--- with me, I will f--- with you worse,” he said. “I always win.”

Explaining why he was so livid, Stern told his listeners that his bosses had recently asked him if he’d like to move the start of his show an hour later, to 7 a.m. That way everybody would get an extra hour of sleep. It seemed like a generous offer; Stern thought it over and accepted. It was then, he said, that management balked, insisting he’d misunderstood. He could start his show at 7 a.m., they informed him, if and when he renewed his contract with Sirius XM Holdings, which is set to expire in December 2015. Stern said he was enraged by what he felt was a strategic bait-and-switch. (A spokesperson for SiriusXM declined to comment.) For the next several minutes, he vented. “It’s not even clear to me who works for who,” Stern said. “I’m pretty sure if I left, it would be very bad for the company.”

Stern is 61 years old. For 40 years he’s been rising before dawn to entertain and titillate drive-time commuters with a kaleidoscopic, screwball performance that’s teeming with anxiety, misfits, satire, celebrities, profanity, pranks, and porn stars. He’s the top rainmaker in American radio, capable of generating hundreds of millions of dollars a year in revenue for whomever employs him and his entourage of baroque sideshow performers known as the Wack Pack. Since 2005, Stern’s show has appeared on SiriusXM, the nation’s sole satellite radio service, which charges subscribers for access to some

CO-HOST ROBIN
QUIVERS AND
STERN, WITH CREW,
IN 1990



JESSICA HAHN,
FAMOUS FOR
HER SEXUAL
ENCOUNTER WITH
TELEVANGELIST JIM
BAKKER, ON THE
SHOW IN 1987

175 channels of curated music, live sports, and talk shows. (The price typically ranges from \$9.99 to \$18.99 a month.) He anchors four hours of morning radio three days a week. Repeats of his shows and highlights from his extensive archives air constantly on two dedicated Howard Stern channels.

Over the past decade, Stern and SiriusXM have thrived together. In 2004, when Stern announced he was moving his hit show from broadcast radio, where it was syndicated on 46 major markets around the country and attracted an estimated 20 million listeners, to satellite radio, where the majority of Americans wouldn’t hear it, lots of people thought he was crazy. It was unclear whether significant numbers of people would pay for satellite radio when they could listen to AM/FM for free.

But with Stern on board, Sirius’s fortunes took off, its subscriber base swelling with acolytes incanting “Baba-Booey!” and “Hey now!” Sirius quickly caught up with, passed, then acquired its rival, XM Satellite Radio. After surviving a rocky patch during the recession, SiriusXM has emerged in recent years as a growing, profitable business. It has 27.3 million paying subscribers. Last year the company had earnings of \$1.4 billion before interest, taxes, depreciation, and amortization on \$4.2 billion of revenue. On paper, the marriage between Stern and SiriusXM has never been better. Yet its future remains in limbo. Stern, who declined to be interviewed for this article, hasn’t said if he intends to extend his contract.

“*The Howard Stern Show* is still the single most important piece of content that SiriusXM has—and the most expensive,” says Barton Crockett, an analyst with FBR Capital Markets. He esti-

SATELLITES

IS WHAT DRIVES THIS WORLD. THERE IS NO SIRIUS WITHOUT TALENT. DOESN'T MATTER HOW MANY YOU F---ING STICK IN THE AIR

mates that Stern's contract costs his employer about \$80 million a year. "I think he's worth every penny. It would be great for them if they can keep Howard Stern."

In the past, Stern has always let his contract decisions go down to the wire. He has nine months to entertain offers and let the drama play out on his show. "Never think of me as a disc jockey," he said on-air last July. "Because the one thing that matters to me more than anything

after all these years in radio is that you treat me with respect. I'm sick and tired of how management speaks to talent. Talent is what drives this world. There

is no Sirius without talent. Doesn't matter how many satellites you f---ing stick in the air."

Stern's looming free agency comes at a time of upheaval in the radio business. A crowd of Internet radio and streaming music companies, such as Spotify and Pandora Media, are competing with Apple and Google to further disrupt the marketplace. The coming battle for Americans' ears, whether in the car or on a computer or smartphone, promises to be fierce. In this unsettled territory, an exclusive deal with Stern could be a fearsome weapon. In theory, he could do for somebody in Internet radio what he did for Sirius in satellite radio.

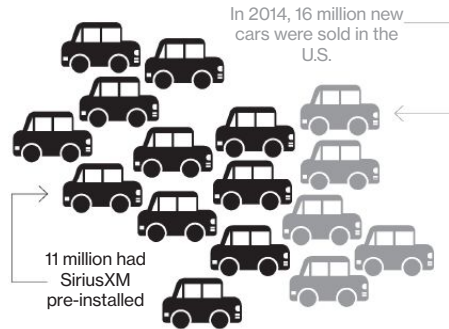
SiriusXM enjoys a unique advantage in the American automobile. Satellite radio is the only premium audio service widely integrated into cars. As their software systems become increasingly Internet-connected via internal modems, dashboard systems are expected to become more like mobile devices. Once that happens, the same crush of companies currently fighting it out on consumers' computers and smartphones will likely extend the battle lines into the car.

Already, Silicon Valley is eyeing the dashboard lustily. In March 2014, Apple announced a product called CarPlay that allows drivers to project their iPhone menus onto the dashboard screens of certain vehicles, such as the 2015 Hyundai Sonata. In June, Google countered with a similar product called Android Auto. Later this year, Google will roll out a premium subscription audio service called YouTube Music Key.

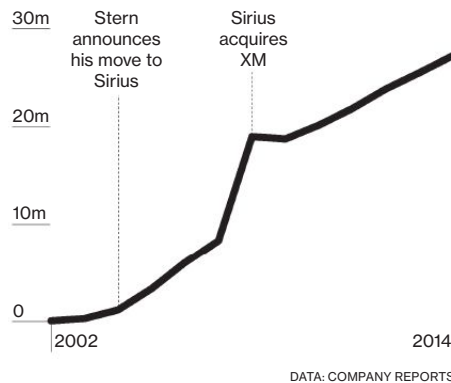
On message boards, Stern's fans are tossing out ideas. He should move to the Internet. Or sign with Apple. Or start a podcast. The breakout popularity of *Serial*, a 12-episode podcast from the makers of *This American Life*, inspired more than one trend spotter to declare 2015 "the year of the podcast." In February a caller asked Stern what he thought of the medium. "It's stupid. It's a waste of time," he said. "If you want to be in radio, forget a podcast. Podcasts are for losers."

Historically, being Stern's boss during a time of friction has

WITH A LOCK ON NEW CARS...



SUBSCRIPTIONS ARE UP



and favors metaphors involving the Indianapolis Colts. On a Thursday morning in mid-February, sitting in a conference room at SiriusXM headquarters in Manhattan, Meyer says he "loves" Stern, is a "huge Howard fan," thinks "his interviews are the best," and the "show has never been better." If he had his druthers, he says, he wouldn't wait until December. He'd renew Stern's deal right now—that is, if they could agree on the right price. "I want Howard Stern for as long as Howard Stern wants to work," Meyer says while a public-relations person records the interview. "I'm only willing to pay so much. I know what that number is. But even if I was in an al-Qaeda death camp, no one is going to know what that number is but me."

After spending much of his career working as an executive at consumer electronics companies, including Thomson, Meyer joined Sirius in 2004 as president of sales

been an ulcer-inducing affair. Managers who alienate him find themselves cast as buffoons in his skits. Battling with his bosses at WNBC in the 1980s, Stern nicknamed one of his program directors Pig Vomit. Another time, he got his hands on a sloppily composed memo written by a general manager and invited an elementary school teacher on the air to grade it. She gave it a D.

Jim Meyer, chief executive officer of SiriusXM, seems determined not to give Stern fodder for on-air umbrage. A native of Indiana, Meyer, 60, speaks with a slight Midwestern accent

"PLEASE DON'T PRINT THAT HOWARD STERN IS ONLY ONE PIECE OF CONTENT. HE'LL CALL ME THE NEXT DAY"

and operations. A few years later, as the economy descended into recession and sales of new cars equipped with satellite radio slowed, John Malone's Liberty Media

helped the faltering SiriusXM stave off bankruptcy with a \$530 million loan, becoming its largest shareholder. In 2012 then-CEO Mel Karmazin, a brash New Yorker with a decades-long and, for the most part, warm relationship with Stern, announced he was resigning amid clashes with Liberty. After an interim trial period, Meyer took over in 2013 as CEO.

He's been working to make SiriusXM a place where Stern feels appreciated. In January, six months after his diatribe against his bosses, Stern got his wish: The show now starts at 7 a.m. In 2014, SiriusXM threw Stern a legacy-burnishing 60th birthday party at the Hammerstein Ballroom in Manhattan, which featured a conga line of top comedians and musicians paying homage to him. "If you listen to his show, he always talks about how happy he is," Meyer says. But "just like your 12-year-old, he's always happy until something else comes along."

In 2010, the last time Stern's contract was up for renewal, a SiriusXM executive suggested at a media conference that Stern might have to take a pay cut. At the time the company was shelling out a reported \$100 million a year for his show. Stern proceeded to reveal the executive's salary on-air and demanded to know when he was taking a pay cut. At the end of 2010, Stern signed a five-year extension with SiriusXM. The following year he filed a civil lawsuit against it, alleging that the company he had "put on the map" had failed to pay him stock awards tied to hitting subscriber targets. Lawyers for SiriusXM denied the claims, and the suit was eventually dismissed.

Meyer is betting that Stern's love of radio will outweigh his impulse to clash with the company. "What I'm hoping is that's a hard drug to give up," says Meyer. "I'm hoping for the roar of the crowd. Why is Peyton Manning maybe going to play another year? It's not the money."

Whatever happens, Meyer says SiriusXM will be fine. "Could we survive if Howard left? Sure," he says. "I just don't want it." That may sound like a negotiating tactic, but the company has spent the past decade building its business beyond one personality. "We have a very scalable business model that works," Meyer says. "In fairness, we lost \$9 billion getting here. But this hasn't been an easy road. That's why when I hear everybody else is going to be in our business—well, come on!"

When Sirius launched its first nationwide service in 2002, subscribers had to purchase receivers at stores such as Circuit City and Best Buy and then get the equipment installed in their cars. Over the past decade, however, the company has worked closely with U.S., European, and Asian automakers to integrate SiriusXM technology into vehicles. These days, Meyer says, of the roughly 230 million cars on the American road, 70 million are satellite-radio-enabled. And of the roughly 16 million new cars rolled out in the U.S. this year, 71 percent have satellite radio built into the dashboard. That could be close to 100 percent, Meyer says, but the company chooses not to go after most low-end vehicles, the buyers of which are unlikely to pay for radio. "By and large, our customers tend to be a little older and a little more affluent," says Meyer. "They look like people who buy new cars, who on average are 46 years old and make \$100,000 a year."

SiriusXM has proven that people will pay for radio if you offer them something easy to use and more enticing than what's available free, Meyer says. What most satellite radio customers pay for, he says, is the variety. "It's not one piece of content," he says. "And please don't print that Howard Stern is only one piece of content. He'll call me the next day."

SiriusXM is constantly making additions to its programming bundle of curated music channels, talk radio shows, and live sports, which has meant making deals with the NFL, the NBA, MLB, NHL, and Nascar. Recently, it added shows from Ellen DeGeneres, Jenny McCarthy, and Hoda Kotb designed to woo female car buyers. In 2013, in a bid to attract more Hispanic subscribers, it launched a channel anchored by Eddie "Piolín" Sotelo, one of the top Spanish-language radio personalities in the U.S. Less than a year later, SiriusXM dropped the channel. "Approximately nobody would pay for him," Meyer says. "That's the cool thing about Howard. People are willing to pay." The company isn't giving up on the demographic. It will soon introduce a channel curated by Pitbull, the bilingual pop star to whom big U.S. brands frequently turn when trying to reach Latino customers.

Meyer says that over the years, SiriusXM has grown adept at converting new-car owners into paying subscribers using free trial subscriptions. The company is working to get better at targeting purchasers of used vehicles, which are now more likely to have satellite radio capabilities baked in.

Internet companies have been trying to colonize the car for years. Meyer recalls a colleague coming into his office in 2004 in a panic because he'd just seen a plan from BMW to add a jack allowing a driver to plug an iPod directly into a car's stereo system and operate it from the steering wheel. "Every automaker said, 'We gotta do this!' So today there's not a car made that doesn't have that jack," Meyer says. "I'd argue that we haven't come a hell of a lot farther since then. Yeah, there's no wire anymore. Yeah, that device is a gazillion times more powerful than the iPod was. But you're still trying to accomplish the same thing. Hasn't had any impact on our business."

Meyer says that though someday all cars will be fully Internet-connected, the change will take place glacially. That's in part because car manufacturers tend to err on the side of

caution when rolling out technology—if something goes awry, customers' lives are at stake—and, because people hold on to cars for much longer than, say,



smartphones. As a result, new features typically take several years to become commonplace. “So when people say, ‘Oh, I’m going to put my technology in the car’—good luck,” Meyer says. “We’ve spent billions of dollars and lots of time to do this. This is not going to change in three years.”

Meyer says he’s positioning the company for that future, when all cars are Internet-enabled. In 2013, SiriusXM paid \$530 million to automotive services company Agero for its connected-vehicle division, which makes software embedded in cars to provide constantly updated roadside assistance or stolen-vehicle tracking, for example. “Being on the inside, it protects our position in the vehicle,” Meyer says.

Neither Stern nor Meyer knows exactly how much of a hit SiriusXM would take if Stern left. Satellite radio is a one-way signal, making its audiences more difficult to measure than, say, Internet radio. There’s no Nielsen for SiriusXM. Meyer says subscribers who originally signed up just to hear Stern now, after nine years, listen to other things, too. “So if Howard goes, will all of them go?” Meyer asks. “I don’t know.”

In January 2014, Macquarie surveyed 800 SiriusXM subscribers and found that while SiriusXM is available on the go for premium subscribers via Web and mobile apps, 84 percent of listening takes place in cars. Of the respondents, 12 percent said they listen to Stern—the equivalent of about 3.2 million listeners. Five percent said they’d consider leaving SiriusXM if Stern departed. A rough estimate suggests it could cost the company about \$240 million in lost revenue annually if he left. For a company that generated \$4.2 billion in revenue last year, that would be a substantial blow—but hardly crippling.

Stern and SiriusXM might both be better off sticking together, analysts say. Amy Yong, who follows the company for Macquarie, says there’s speculation that Stern could launch his own direct-to-consumer product. But she’s skeptical. “There’s more than just the dollar amount that goes into these decisions,” she says. “SiriusXM makes it very nice for him to work. Why disturb that?”

FBR Capital Markets analyst Crockett says SiriusXM is “highly likely” to keep Stern. He points out that Stern’s alternatives come with short steps backward in compensation, reach, or prestige. If Stern returned to terrestrial radio, he’d find himself wrestling with government regulators. If he launched a direct-to-consumer product, he’d have to spend significant time and money building the infrastructure. And if he went to Google or Apple, his show would be less accessible for U.S. drivers. By 2017, according to estimates from IHS Automotive, Apple CarPlay and Android Auto will be available in only 3 million vehicles in the U.S. and Canada. By then, SiriusXM estimates that more

than 100 million American cars will be satellite-radio-enabled.

In theory, Stern could decamp for a premium TV network like HBO or a subscription streaming service such as Netflix. But so far, SiriusXM has been willing to accommodate Stern’s extracurricular TV activities, such as his gig as a judge on NBC’s *America’s Got Talent*. Maybe the company would indulge additional ventures on the Internet. In February, the *New York Times* reported that Lloyd Braun, a Los Angeles-based media executive who was once Stern’s lawyer, had signed him as a client for Whalerock Industries, Braun’s new company, which will create “media hubs” for celebrities. According to the *Times*, the service will augment existing deals such as Stern’s with SiriusXM rather than replace them.

Braun declined to comment.

DURING HIS FIRST SIRIUSXM BROADCAST IN JANUARY 2006

Crockett doubts music-oriented services such as Spotify or Pandora would have enough money to poach Stern even if they wanted to. “I don’t know

Stern and crew at his 2014 birthday party thrown by SiriusXM



that anyone else can give him as good a combination of lifestyle and money as he can get at SiriusXM,” Crockett says. “If you go to one of these emerging things, it’s not going to be at the same level. SiriusXM has finally become a big platform.”

Bob Lefsetz, a music industry analyst, says Stern, having spent a decade building SiriusXM into a major audio platform, is reaping the benefits. These days, he’s getting A-list celebrity guests—Larry David, Gwyneth Paltrow, Bradley Cooper—who would have been unthinkable not long ago, when sex workers, weirdos, and marginal celebrities typically jockeyed for attention. The Hollywood publicists and studio execs who used to snub Stern’s show are scrambling to get their clients a piece of his coveted airtime. “Howard now has the cultural impact and level of acceptance that he’s always desired and had never reached previously,” Lefsetz says.

In January, when a caller asked about his plans, Stern called Meyer, the CEO, a “very sweet man” and praised SiriusXM’s strategy. “It’s a great place to be,” Stern said. “If I’m going to do some more radio, he’s the first guy I’d talk to.” He then revealed somewhat cryptically that he’d recently gotten an intriguing job offer. To do what and for whom, he didn’t say. The problem, he lamented, is that there are only so many hours in the day. Maybe he’ll just retire. “It would be kind of interesting, not to do anything,” Stern said. “I think I’d really be good at that.”

If he walks away at the end of 2015, Stern will be in good company. In May, David Letterman will host his final *Late Show* on CBS. And at some unspecified date later this year, Jon Stewart will anchor his final night of *The Daily Show* on Comedy Central. “I always think, ‘Wow, I need the radio, and I need to have an audience,’” Stern told his listeners. “Maybe I don’t.” **E**

Loan



**How Josh Sason makes
millions riding the
death spirals of penny stocks**

Wolf



By Zeke Faux
Photographs by Ryan Lowry

Two thousand people cheered as Joshua Sason walked up to a boxing ring at an arena in Providence late last year. He trailed the actor Miles Teller, and the crowd was made up of extras—they were shooting a boxing movie, directed by the guy who made *Boiler Room*. Sason got to make a cameo in the fighter's entourage because he's producing the movie with Martin Scorsese and put up the budget. He's 27 years old.

After the December shoot, Sason took a Christmas vacation in Malaysia with his lingerie-model girlfriend, Rachel Marie Thomas. He checked on the renovation of his Tribeca penthouse. And he hit a recording studio in London to help mix an album by an Israeli actress and singer he's signed for his company, Magna, which he describes as a global investment firm.

Six years ago, Sason was living in his parents' house on Long Island, doing clerical work for a debt-collection law firm and dreaming of becoming a pop star. Then a family friend showed him a trick that seems to have earned him millions in the stock market. He won't say exactly what he does or how much he's made, but regulatory filings by dozens of companies show that Magna has invested more than \$200 million since 2012.

Sason, who has full sleeves of tattoos he covers with tailored three-piece suits, calls himself a self-taught value investor. He has about 30 employees in trading, venture capital, music, and film. "I'm not going to give away the details of how we do what we do," he says in a January interview at his 16th-floor office in Manhattan's financial district. "We create businesses, and we invest."

Actually, it's a little more complicated than that. What Sason discovered is a way to get shares in desperate and broke companies at big discounts by lending them money. Magna has done deals with at least 80 companies. Of those, the stocks of 71 have gone down since the investment. He can still turn a profit, because the terms of the deals allow him to turn debt into equity at a fixed discount. No matter where the stock is trading, he gets it for less.

Magna functions as a pawn shop for penny stocks—shares of obscure ventures that change hands far from the rules of the New York Stock Exchange. His customers have included a would-be Chilean copper miner, an inventor of thought-controlled phones, and at least two executives later busted for fraud. They come to Sason to trade a lot of their stock for a little bit of money. Often they're aware the deal is likely to be bad for their shareholders.

If the share price goes lower before Magna can unload its investment, the companies have to give up even more stock, all but eliminating the risk for Sason. Critics call it "death-spiral financing" because it drives stocks into the ground. Others in the field say they sometimes make double, triple, or even 10 times their investment in just a few months.

The business is legal, but the loopholes in securities law it exploits are too sketchy for most of the Ivy League types at banks and hedge funds. At least six other lenders of last resort to penny-stock companies have been sued by the Securities and Exchange Commission for breaking the rules around dumping shares or other violations. One was arrested by the FBI. It's worked out better for Sason, who hasn't had any issues with the authorities. He's using death-spiral profits to diversify Magna and turn himself into an entertainment mogul.

The son of an Israeli immigrant who works as a contractor, Sason grew up in Plainview, a middle-class Long Island suburb about an hour east of Manhattan, in a beige ranch-style house near the Seaford-Oyster Bay Expressway. When he was 10 or 11 he started a rock band called The Descent with some neighborhood kids. They did Blink-182 covers, and he sang and played drums, guitar, and keyboards.

Sason built a recording studio in his parents' basement and

started writing music for the band. The Descent got pretty good. Around sophomore year, someone got their music in front of Trevor Pryce, a 260-pound defensive end for the Denver Broncos who invested in music as a sideline. He flew to Long Island to sign them to his record label—but first he had to sit down with their concerned parents. "I was in the living room with five Jewish families surrounding me asking me about calculus," he says. "It was hilarious." Pryce gave Sason and his bandmates \$5,000 each, and they started to dress the part of rock stars at school, according to Chris Antonelli, a band member. "We called it Rock Star Fridays," Antonelli says. "I'd wear my grandmother's mink coat and sunglasses, and Josh would wear a boa."

The Descent played showcases for executives from major labels, but the other kids Sason and Antonelli recruited weren't very good. "They botched it beyond belief," Pryce says.

"It was a big letdown," Antonelli says. "There was a lot of anticipation that we were going to be the Next Big Thing, and it didn't happen."

Sason enrolled at nearby Hofstra University and lived at home. A second band, Vibes, was less successful, playing its biggest shows at Temple Beth Am in Merrick, N.Y. Bandmate Michael Morgan says Sason was eager for another shot at the big time. "When you're signed to a record label and you're in high school, your perception of success has to change," Morgan says. "You're like, 'OK, that's possible. What else? What's next?'"

Sason got a job making deliveries in his black Mustang for an Asian restaurant, then did filing for the debt-collection firm. Morgan says they worked out together every day at a Jewish community center—where kids now play basketball in the Joshua A. Sason Gymnasium, renamed in 2013 after a donation.

In an entrepreneurship class at Hofstra, where he was a member of the class of 2009, Sason came up with a plan to import sand from Israel and sell it as a collectible called "Sand from the Holy Land." He liked the 2006 Oprah-endorsed documentary *The Secret*, based on a self-help book about the power of positive thinking. Another friend says Sason still talks about his belief in the book's "law of attraction"—how you can achieve anything you want by imagining that it will come true.

The way Sason tells his story, that's pretty much what happened to him. He says he was on vacation with his family in Puerto Rico when he read *The Intelligent Investor*, the 1949 book by Benjamin Graham that Warren Buffett cites as an inspiration. "It was pretty much a life-changing moment for me," Sason says. "I read it once. The second time I read it, I went through and highlighted it. The highlights became a guideline for me to write my own interpretation."

Sason says he doubled his bar mitzvah money on blue-chip stocks in 2009. "I realized I had maybe a little bit of a knack for how investing works," he says. He borrowed his mother's retirement savings, took a "low six-figure" loan from a friend of the family, and started Magna from his bedroom. The business grew, Sason says, as word spread about how Magna could finance small companies.

"It was a gradual and progressive growth," he said in the January interview. "There wasn't anything in particular that I would recall from back in the day, to be honest with you."

I still couldn't understand how a wannabe musician from Long Island had become a millionaire investor virtually overnight. I'd found a 2012 lawsuit in which a financier named Yossef Kahlon accused Sason of copying his business model, but the only thing Sason would say about him is that they hadn't spoken in years.

There's little else online about Kahlon, and his number is unlisted. His address is on the lawsuit, though, so I drive to his house in Great Neck, N.Y., a wealthy town on Long Island's north shore. A white Range Rover is parked in the semicircular

How do you make money investing in falling stocks?

Penny Corp., trading at \$0.05 a share, needs cash. A lender, DeathCo, gives it a \$100,000 loan, convertible to stock at a 50 percent discount.

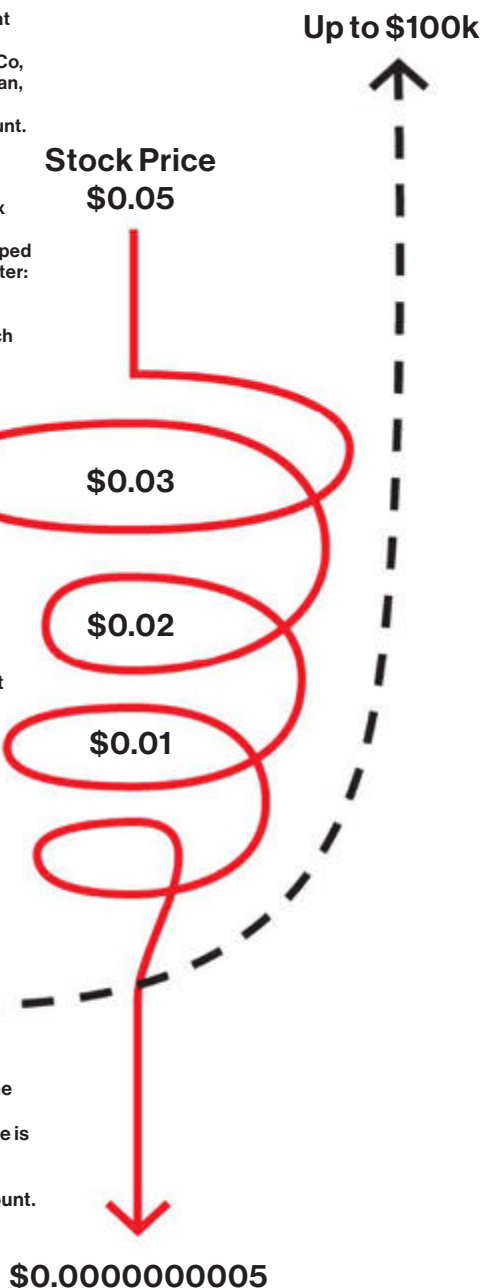
DeathCo must wait six months to convert. The shares have dropped to \$0.03. Doesn't matter: The lender converts \$50,000 into stock at 1.5¢ a share, as much as it thinks it can sell right away.

DeathCo's dumping pushes the stock down more.

DeathCo converts \$30,000 more into stock at a 50 percent discount to the new, lower price.

Lender's Profits

DeathCo converts the last part of the loan. Even though the price is below a penny, it still makes money because of the discount.



driveway outside the brick colonial mansion, which was listed for sale last year for \$6.3 million. Dance music thumps from inside. A slim man with gelled black hair and gray stubble answers the door and says Kahlon isn't home. An e-mail arrives the next day. "My name is Yossi Kahlon," it says. "I heard you are looking for me." We arrange to meet at a steakhouse in Manhattan, and at the appointed time, the man with the gelled black hair walks up. It was Kahlon after all. "Nice to meet you again," he says. Then he pulls out a wad of tens and hundreds to pay for a Tanqueray and tonic and tells the story of how he met and mentored Josh Sason.

Kahlon, 48, is an Israeli immigrant, too. After arriving in Queens in 1989 and driving for a taxi service, he built a small fortune by getting in early on arcade games and financing car dealerships. He hired Sason's father to work on his house and soon befriended

the family, inviting them over for holidays. One Passover, when Josh won the traditional game of hide-the-matzoh, which usually comes with a prize of \$1 or \$10, Kahlon says he gave the kid \$1,000.

Around 2009, Kahlon heard the Sasons were having financial issues. He told the elder Sason he could help. "I said, 'Bring your son here, I'll teach him to make money,'" says Kahlon, who by then was in the penny-stock business.

The market for penny stocks can be traced back to the scrum of brokers who used to trade shares that weren't welcome on the New York Stock Exchange. A 1920 article in *Munsey's* magazine called them "a close-packed mass of creatures apparently human" and described the auctioning of shares in a puppy.

Penny stocks exist so that, say, an oil wildcatter with a hunch he's about to drill a gusher can raise the money he needs without the hassle of listing on an exchange. They feed a desire for a hot tip that could double or triple. It's a disreputable corner of the market. Many listings are bogus. Most are, at best, just a guy with an idea, and often that idea is to raise some money so he can pay himself a fat salary. Other listings are real businesses that have been dropped from the big exchanges because they're on the verge of failure.

Kahlon paid brokers to scour the market for penny stocks with high trading volume, then call the companies to see if they wanted to issue new stock. These struggling companies can't sell new shares to the public the usual way, by enlisting a proper investment bank, because it's too expensive and the offerings too tiny. But they can sell to private investors such as Kahlon. They gave him steep discounts, and he'd sell the shares into the public market right away, often doubling his money as everyone else's shares were diluted. There are laws against doing this, but Kahlon thought he spotted an exception in Texas. He incorporated his company there, while operating from New York.

Kahlon says he showed Sason how to trade like him—and then cut off contact so that no one could accuse them of conspiring. "I'll teach you the business, but the minute you open, we can't talk anymore," he said to Sason. "I don't have any friends in this business." Texas corporate records show Sason incorporated Magna Group in the state in 2010, using the same mail drop as Kahlon.

Once Magna got going, Sason's younger brother, Ari, dropped out of the University at Buffalo and started working with him in their parents' home. They pulled a sewing machine table out of the garage and set it up in Sason's bedroom for Ari. They quickly made enough money to move to a suite at 5 Hanover Square in Manhattan and hired a team of "finders" to identify targets.

"They had at least two guys pretty much cold-calling corporations they would look up on the Internet," says John Perez, who worked for Magna for a few months in 2012 as a trading assistant. "The other two guys worked on the deals." One of Sason's salesmen, Ari Morris, made up the alias "Michael Goldberg" to use for himself on the phone. Magna's website listed Goldberg as "director of structured investments" in 2012. Clients say he sounded nice.

Magna wasn't the only group calling. Executives of penny companies say that when their stock has a high trading volume, they get bombarded by young salesmen and washed-up bankers asking if they need cash—and often they say yes.

That activity caught the attention of the SEC. In the summer of 2012, the agency filed separate lawsuits against Kahlon and another penny-stock financier, saying their clever Texas loophole in fact wasn't. The SEC said Kahlon made \$7.7 million buying penny stocks at deep discounts and dumping them on the public. Kahlon says he did nothing wrong; the case is still pending.

Kahlon closed down his fund. He hoped his former student would help with legal costs. Sason didn't, and Kahlon says he felt slighted—not given enough credit or respect for bringing Sason in on the game. Kahlon sued Sason, alleging that he



**“I want to help the
company, I really do”**

damaged a relationship with a broker; a judge dismissed the case.

When I ask Sason about Kahlon's story, he says it isn't true. "Nobody showed me the business," he writes in an e-mail. While his family friend's success inspired him to look into penny stocks, he says Magna's deals aren't like Kahlon's, the shared mail drop was a coincidence, and he never got a \$1,000 Passover prize.

None of the SEC actions mentioned Magna, and Sason has never been in trouble with the agency. Almost all of the regulatory filings by Magna's clients show deals that are more intricately constructed than Kahlon's.

Paul Riss's deal with Magna in July 2011 was typical. The New York entrepreneur's company, Pervasip, was developing a communications app to compete with Skype, but it was down to its last \$100,000, barely enough to last a month at the rate the company was losing money. When Magna's "Michael Goldberg" called offering cash, he didn't even ask to look at the app, Riss says. "All they care about is the liquidity of the stock," he says. "They want to see how many dollars are trading a month."

On the surface, the \$75,000 loan Magna offered seemed all right. It was in the form of an "8 percent convertible promissory note," meaning it asked for an 8 percent return and gave Sason the right to convert it into stock. The fine print explained that if Pervasip didn't pay back the money within six months, the lender could convert at a 45 percent discount to the market price. So, no matter where Pervasip's stock was trading, the company had to give Magna shares that were worth more than \$136,000—an 82 percent return in just six months. Essentially, Magna locked in a fixed return.

The lower the shares went, the more Pervasip had to give up so Magna could get its money. The only risk Magna took is that no one would buy Pervasip's stock at any price. "Unfortunately, that's about the only money available," Riss says.

Pervasip didn't repay, and gave the discounted shares to Magna in January 2012. Riss says he doesn't have records that show just how much Magna made. After bouncing up to 3¢ for a bit, Pervasip now trades for nine-thousandths of a penny. Riss says he still gets calls from lenders like Magna offering more money.

An analysis of 80 public filings shows that a company that does a deal with Magna sees its shares plummet 55 percent over the next year, on average. Most never recover and wind up trading for thousandths of a penny or less. Sason says that's not Magna's fault.

"I want to help the company, I really do," he says. "We never, ever make an investment where we knew our activity in the marketplace would potentially decrease the value of the company. There would be no benefit for us."

Sason bought his penthouse in Tribeca for \$4.2 million in January 2013. At some point he upgraded from the Mustang to a \$200,000 two-door Mercedes-Benz, his high school buddy Antonelli says. He started hanging out at Lavo, a bottle-service club in midtown Manhattan popular with celebrities. "He's there like Thursday, Friday, Saturday, Sunday," says Antonelli, "holding court with all the beautiful waitresses."

Magna's biggest score came in 2013, when it helped a Greek shipping company called Newlead avoid bankruptcy. The shipper, which once owned 15 tankers and container ships, was down to four vessels. It had enough cash to cover about a month of operating losses.

The deal had a twist. Instead of giving Newlead a loan, Magna paid some of Newlead's lenders for the right to collect its old debts. After Magna sued Newlead to collect, the two companies quickly filed a settlement where Newlead agreed to give Magna discounted stock that it could sell right away. A New York state judge signed off on the arrangement.

Sason said in an affidavit filed in the case that Magna, together with an unnamed partner, paid off \$45 million of debt and received stock that it sold for \$62 million—a \$17 million profit before expenses.

The financing technique is legal as long as the debts that are being paid off are real and the financier doesn't kick any of the money from the stock sale back to the company, according to Mark Lefkowitz, another penny-stock financier who pleaded guilty in 2012 to breaking those rules. "The bottom line is, it's supposed to be used for bona fide conversions of debt to equity," says Lefkowitz, who's cooperating with the FBI. He cut an interview off quickly, saying he was due to be sentenced soon and needed to check with his FBI handler before talking.

The financing may have saved Newlead as a company—it avoided bankruptcy and bought new tankers—but it ruined it as a stock. The company has been so thoroughly pillaged that if you'd bought \$3 million of shares in March 2013, just before Magna invested, you'd be left with a dime. Adjusted for reverse splits, the shares trade for 20 billionths of a penny—\$0.000000002. Newlead did not respond to a request for comment.

It's hard to say exactly how much Magna has profited since 2010. Sason says Magna has done \$200 million of deals, confirming calculations from clients' regulatory filings, though some were with partners. He says the majority of the company's equity is his, with the rest owned by his employees.

Rivals in the business say that penny-stock financiers typically demand at least a 50 percent return, a figure supported by SEC findings. Sason says he can count the deals that backfired "on one hand." By any reasonable estimate, his returns would top almost any hedge fund. "The returns are healthy," he says. "We're not getting into any business or any strategy not to be profitable."

Since the Newlead score, Magna has been diversifying. Sason started a "ventures" division, which invested in PledgeMusic, a London-based website that lets musicians sell albums they're working on in advance, and Mainz, a sort of high-end receptionist outsourcing company. He hired a former executive at Madonna's record label to help him run his entertainment division.

Sason got into filmmaking through Chad Verdi, who started producing movies in 2011 after financing penny-stock companies that failed at nuclear waste cleanup and military chemical detection. Verdi was producing straight-to-video-on-demand movies when he met Sason. After Sason invested in a romantic comedy, Verdi took him to meet Martin Scorsese at his office in New York's theater district. The director mentioned a documentary he was making about the *New York Review of Books*. "We ended up putting some finishing funds into that, and we were executive producers on that project," Sason says.

Then Verdi approached Sason about funding a biopic—the story of Vinny Pazienza, a boxer from Rhode Island who came back to win three titles after breaking his neck in a car crash. Scorsese had come on as a producer for the film, called *Bleed for This*. Also on board was *Boiler Room* director Ben Younger. *Boiler Room* is a classic about penny-stock swindles, but Younger didn't see any connection.

"We were looking for financing," says Younger, "and Joshua came in and saved the day." Younger says it wasn't Sason's idea to make a cameo in the movie. "He's an artist, so he's respectful of other artists' process." Younger and Verdi say the budget for *Bleed for This* is \$6 million; Sason says it's lower but won't give a number.

Sason is preparing to move Magna to 40 Wall St., a tower down the block from the New York Stock Exchange, where he signed a lease for two full floors. He says trading stocks is now just one-twelfth of Magna's business.

"I'm really trying to build a company and build an organization that's here for the next 1,000 years," Sason says. "I want to build something powerful and something meaningful and lasting." **E**

Nanook

Of Tribeca



A

few months a year, Jim Haugen can be found at the South Pole tending to a cluster of very deep holes filled with sensors. The apparatus, called the IceCube, is a sort of inverse antenna array extending 1.6 miles down into Antarctica's thick carapace of ice. It was built to capture information about neutrinos, subatomic particles from space that astrophysicists believe could answer fundamental questions about the

universe. Haugen, an engineer, helped build the IceCube—complicated and dangerous work, much of it performed outdoors during the brief Antarctic summer—and now he maintains it. “We start arriving early in November, when the temperature is in the minus 40s Fahrenheit. You get a little bit of wind, and it’s easily minus 60 or 70. By December it transitions through the minus 30s into the minus teens,” says Haugen, a son of Green Bay, Wis., who tends toward understatement

on the weather. “And then in January, it starts getting cold again.”

Haugen’s IceCube tours all begin the same way, at the U.S. Antarctic Program’s clothing distribution center in Christchurch, New Zealand. There he’s issued a pair of insulated Carhartt overalls, a fleece jacket, long underwear, mittens, goggles, a hat, waterproof boots, and a bulky, cardinal-colored down parka made by Canada Goose. “Big red,” as it’s called, is one of the warmest coats on



The great southern migration

of Canada Goose coats

Proprietary down blend

Coyote-fur trim

Price: \$600 and up

By Drake Bennett

Photograph by Nathan Perkel

"I walked into a store one day, and there was Canada Goose between Gucci and Prada"

the market. On flights to and from Antarctic research stations, USAP team members are required to have their big reds within reach in case the plane crashes and survivors are caught out in the elements. "I've never been cold with that jacket on," Haugen says. Asked about their aesthetic appeal, he seems perplexed. "I wouldn't say there's really anything fashionable about them at all," he says.

Everyone is entitled to his opinion, of course, but if one defines fashion as stuff shoppers will seek out and spend lots of money on, the Canada Goose parka has been the most fashionable item of the grinding winter of 2015. In New York and Milan, in Paris, Dallas, and Seoul, Canada Goose has been everywhere, zipped to the chin on commuters hurrying a few blocks to their office and draped over shoulders in drafty cafes and trattorias. The coats have appeared in blockbuster films and in countless paparazzi shots of celebrities on coffee runs. One was matched with a bikini bottom in a now legendary *Sports Illustrated* cover shoot. Canada Goose today makes hats, windbreakers, vests, and snow pants, but the must-have item is the parka, in black or dark blue, with a coyote-fur-trimmed hood and a price tag that starts at about \$600 and runs for some models into the four digits. The company's logo, a disc with a stylized red-white-and-blue map of the Arctic parenthesized by maple leaves, has become inescapable in the urban environments where people are willing to spend a thousand dollars on a coat (while spending most of their time indoors).

According to Tom Ott, the executive in charge of men's clothing at Saks Fifth Avenue, Canada Goose sales have been ferocious over the past two years in both the men's and women's departments. "It was the most explosive area in men's during the fourth quarter," he says. In the past 10 years, annual revenue at the privately held, Toronto-based company has grown from \$5 million to \$200 million. Private equity firm Bain Capital bought a majority stake in December 2013 for an undisclosed sum. The coats have been selling out at Saks locations all over the country, Ott says, not only in the snow-battered Northeast but also in California and Texas. Sales have been strong even in Florida.

How did this happen? It's certainly been a very cold couple of winters in



















much of North America. But there are lots of companies that make warm coats you can buy for less money, even at Saks. The Canada Goose phenomenon—and with 500,000 jackets produced this year, it's surely a phenomenon—isn't about mere functionality. It's equally about the look of functionality, and the romance of stoic people doing strenuous things in hostile places. And though the Canada Goose epidemic originated, as might be expected, in Canada, the critical mutation that allowed it to jump the species barrier from the Arctic grease monkey to the metropolitan clotheshorse—and to spread unchecked beyond—occurred elsewhere. Film sets were vectors of transmission, and patient zero seems to have been Swedish.

In 1957, Sam Tick, a Polish immigrant and a fabric cutter, started Metro Sportswear, producing snowmobile suits, woolen vests, and assorted cold-weather workwear out of a small Toronto warehouse. Tick's son-in-law, David Reiss, took over in the 1970s, and under his leadership the company started making down parkas, selling them under the name Snow Goose in Canada and Canada Goose in Europe (the brand Snow Goose was already taken there). The company also manufactured coats for bigger labels such as Eddie Bauer and L.L.Bean. To maximize warmth, Reiss used special down blends, many incorporating the high-quality goose and duck down produced in Western Canada by an Anabaptist sect called the Hutterites. Canada Goose and Snow Goose acquired a loyal following among people interested primarily in warmth, durability, and large, accessible pockets. Petroleum engineers and dog sledders, polar research organizations and Canadian police departments proved willing to pay premium prices for the parkas.

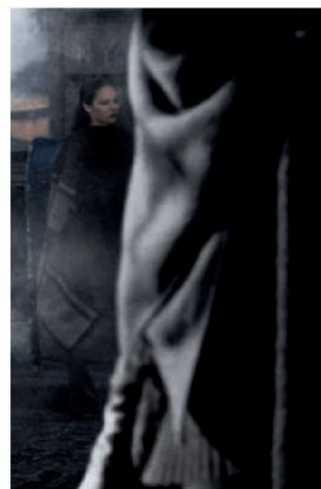
In 1996, Reiss's son, Dani, graduated from the University of Toronto with a degree in English literature and little interest in working for the family business. He wanted to write short fiction. To make some money, though, he took a temporary job working for his dad, managing the company's accounts with small Canadian airlines operating in the far North. Dani got interested in the business and stuck around longer than he'd planned. He liked to travel and decided it might be interesting to see how the coats were sold outside Canada.

When he visited Stockholm in the late 1990s, Sweden was already an important market for Canada Goose. What Reiss quickly realized was that the same jackets he was selling to bush pilots appealed to an entirely different type of Swedish customer. "I walked into a store one day, and there was Canada Goose between Gucci and Prada," he says. "The Swedish royal family wore our jackets. They still

Mass Authenticity

Origin	Early business	Cultural moment
 <p>Levi's 1853: Levi Strauss opens for business</p>	 <p>Clothing, blankets, and sundries favored by miners</p>	 <p>1950s: Marlon Brando and James Dean wear jeans</p>
 <p>Carhartt 1889: Hamilton Carhartt is founded in Michigan</p>	 <p>Coveralls and workwear for railroad workers</p>	 <p>2012: Rihanna puts on a Carhartt logo beanie</p>
 <p>Barbour 1894: J. Barbour & Sons is founded</p>	 <p>Waterproof attire for sailors, submariners, and longshoremen</p>	 <p>1980s: Lady Di wears a waxed-cotton Barbour jacket</p>
 <p>Ray-Bans 1937: Bausch & Lomb begins making shades</p>	 <p>U.S. fighter pilots and soldiers wore Ray-Bans in World War II</p>	 <p>1986: Tom Cruise dons a pair of Aviators in <i>Top Gun</i></p>
 <p>Land Rover 1948: Land Rover is founded in England</p>	 <p>Used on farms and by the British military</p>	 <p>1987: Range Rovers first sold in U.S. Luxe models ensue; here's Victoria Beckham with a 2013</p>
 <p>Timberland 1952: Founded as Abington Shoe; name changed to Timberland in 1970s</p>	 <p>Waterproof boots for blue-collar workers and outdoorsmen</p>	 <p>1990s: Worn by Tupac, Wu-Tang Clan, and (duh) Timbaland</p>

A CALM IS NOT DESIRABLE IN
ANY SITUATION IN LIFE — ABIGAIL ADAMS



THE NEW CTS-V
#DAREGREATLY



do.” And though the coats came only in men’s sizes, women loved them, too. Stores in Stockholm had a hard time keeping the men’s triple-extra-small in stock.

What someone else might have seen as a charming oddity of a practical people, Reiss saw as an opportunity. He abandoned his literary ambitions and dedicated himself to getting the world to see Canada Goose through Swedish eyes. In 2001 he took over from his father as president and chief executive officer. He introduced a women’s line and developed slimmer “urban, modern” models for both men and women. He stopped making coats for other labels and sold only under the Canada Goose brand. Reiss courted higher-end department stores at trade shows. And he decided to keep all of his manufacturing at home in Canada, a decision that would justify the parkas’ high price, ensure quality, and burnish the pitch about tradition and know-how. “People around the world love Canada,” he says. “They love what we stand for, they love our nature, they love the North, they love the images of that.” And if people around the world know one thing about Canada, they know it’s cold.

Reiss also found cheap ways to market the brand. He gave coats to bouncers at Toronto nightclubs and scalpers outside the city’s sports arenas. Canada Goose parkas were already popular with movie crews, and he capitalized on that. The company is a sponsor of the Toronto, Sundance, Berlin, and Busan film festivals. Producer Rose Ganguzzo remembers calling up the coatmaker in February 2011 when she was making *Kill Your Darlings*, a drama about the coming-of-age of the Beats and a sensational 1944 murder. “We were going to be shooting scenes on the Hudson River in 20-below temperatures,” Ganguzzo says, with perhaps a touch of exaggeration. Canada Goose outfitted the entire cast and crew for free. “They found loyal customers in every one of those people,” she says. “Dan Radcliffe”—the English actor plays a young Allen Ginsberg in the film—“every year wants a new Canada Goose jacket.”

In late 2012, *Sports Illustrated* got in touch with the company to outfit a crew going to Antarctica to shoot the 2013 swimsuit issue. The supermodel Kate Upton ended up wearing one of the coats, a white Chilliwack bomber jacket, on the cover of the magazine, her face haloed in coyote fur. In 2013, Canada Goose’s U.S. sales increased 25 percent; last year, they rose

an additional 30 percent. Reiss expects sales to grow by half in 2015.

Ask someone why they bought a Canada Goose jacket, and they’ll probably say it’s because it’s warm and well-made. As Reiss points out, there are plenty of parkas that are a lot more expensive but won’t last nearly as long. That’s certainly true: The wrist cuffs are thick and snug, the outer fabric is tough, and the proprietary down filling retains heat like a pizza oven. Having a large, bright logo advertising how much the wearer paid for the coat doesn’t hurt, either. As with all popular brands, Canada Goose has inspired imitators and Chinese counterfeiters, and it’s gone to court to protect its trademark. Company executives have claimed that the fakes use German shepherd fur rather than coyote (antifur campaigners, no fans of Canada Goose, would see that as a distinction without much of a difference) and warned that microbes in the cut-rate insulation of the knockoffs make them health hazards.

To the uninitiated, the Canada Goose logo can be a little confusing. The words “Canada Goose Arctic Program” are written around the edge of it, as if it were not a mere clothing label, but the insignia of a polar research consortium or an elite team of ski commandos. There isn’t any such program. David Reiss made up the name in the early 1980s when he created the logo, which is almost identical to the official patch of the USAP. Comparing the two symbols, it’s hard not to see Canada Goose’s jealously guarded logo as its own kind of knockoff.

Status-conscious urbanites have been aping adventurers since the Middle Ages. According to Lourdes Font, an art historian at the Fashion Institute of Technology, the first example of designer sportswear was the surcoat. Knights on the Crusades wore special long tunics over their armor to keep it from overheating in the Middle Eastern sun, and when they got back to Europe, it became a fashion craze. The trenchcoat has a similar story: Originally designed for British officers to wear in the soggy trenches of the Great War, it caught on with civilians who wanted its aura of martial mettle and rank. The waxed-cotton jacket and the boat shoe, the polo shirt and the Patagonia fleece don’t have military

associations, but they conjure up an image of rustic, moneyed leisure devoted to active pursuits. While it’s probably little comfort to the cubicle jockeys who wear them, modern business suits were born out of 19th century riding costumes.

What these clothes connote, Font says, is freedom. “Freedom from work, from school, from obligations, being free to be out there in nature having adventures, even though that’s not the reality. And that’s part of the appeal of these coats.” Canada Goose’s official corporate mission is “To free people from the cold, no matter where they live, and empower them to experience more from life.”

Canada Goose parkas aren’t Barbour jackets; they don’t bring to mind the country squire. They’re workwear—or, in the case of the company’s newer models, they at least resemble workwear. But the labor they evoke is very different from what most of the people now buying the coats actually do. It’s the sartorial equivalent of reality cable shows like *Deadliest Catch* or *Ice Road Truckers*, where viewers live vicariously through crab fishermen and truck drivers braving the Arctic, doing work that’s physical and dangerous and somehow, we think, more real. Office-bound Walter Mittys in Canada Goose can imagine themselves prospecting, patrolling remote borders, tracking polar bears, or venturing out into the Antarctic cold to fix the neutrino sensor and unlock the ultimate questions of existence.

Not everyone who buys a Canada Goose parka has these fantasies, of course. Popularity has its own momentum. This year the attraction of Canada Goose has surely grown beyond its provenance and become largely about the brute fact that everyone is wearing it. That dynamic is a powerful one, at least for a little while. A few brands with similar associations—Land Rover is the best example—manage to survive the transition to status symbol while retaining an aura of authenticity. The danger, though, is that the more Canada Goose parkas one sees on the subway or on the coat rack at the dentist’s office, the more prosaic they seem.

Haugen, the Antarctic engineer, returns his government-issue big red every February so someone else can use it. And he doesn’t need his own; by the time he’s home in Madison, Wis., it’s almost spring. Even at the South Pole, he says, he doesn’t wear the parka that much. When he’s working outside he’s moving around, lifting, turning, and pulling, and even in -20F weather, big red is too hot. He prefers layers. “Long underwear next to your skin, a fleece, and a down vest, then maybe another very lightweight down jacket, and then over the top of that a shell,” he says. “The same thing as when you go to a Packer game at Lambeau Field in December.” ⑤



Bottom: Actual polar explorer patch. Top: Not so much

In 2013, Canada Goose's U.S. sales increased 25 percent; last year, they rose an additional 30 percent. Reiss expects sales to grow by half in 2015

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RISE OF AN
EMPIRE

WI-FI-FREE TRIPS

BUY
MAKEUP ONLINE

CONDOMS GO
GREEN

ETC

Tear Here

for Dinner

Meal-delivery companies are challenging supermarkets, takeout joints, and each other for a chunk of the \$1.3 trillion food industry

By Elizabeth G. Dunn



Blue Apron's roast beef with pear salad and horseradish sour cream doesn't actually come precooked

It's an odd thing to get fish by mail. But there they lay, nestled between ice packs the size of paving stones, six beautiful fillets of Acadian redfish from the high-end supplier Sea to Table. They came with tiny bottles of soy sauce and rice wine vinegar, exactly two pats of butter, and a half-dozen other ingredients that go into miso rice with roasted redfish—all delivered overnight by a company called Plated. Inside the box, everything was premeasured but unprepared: Vegetables had been left whole, meats unmarinated. So that night, when dinner landed on my table—and then on my Instagram account—I could honestly brag that I cooked it from scratch.

Meal kits like this first took off in Sweden in 2007 with a company called Middagsfrid, which roughly translates to “dinner peace.” (Similar businesses had a moment in Silicon Valley in the late 1990s.) American versions began popping up in 2012, with the near-simultaneous creation of Blue Apron and Plated by separate factions from the same Harvard Business School class. The rumor among classmates, which Blue Apron Chief Executive Officer Matt Salzberg denies, is that he got his idea from Plated founders Nick Taranto and Josh Hix, then was faster to line up funding. Later in 2012, a year-old German startup called HelloFresh came to the U.S. In 2013, Atlanta-based PeachDish joined the fray with boxes that have a “Southern accent.” The Purple Carrot began providing vegan options last fall.

Most operate using a weekly subscription model. Customers start by visiting an expensively designed website to browse recipes, complete with artful photos, calorie counts, time estimates, and ingredient lists peppered with exotic fare. They decide how many dinners they'll be serving each

week and which dishes they'd like to try. Portions cost from \$8 to \$12 per person. When the box arrives on the chosen day, it contains all the fixings for a somewhat ambitious but not quite Julia Child-level meal.

“The notion of convenience is changing—it used to be ‘throw something in the microwave,’” says Darren Seifer, a food analyst with market-research firm NPD Group. “Now consumers want to be part of the process but still want to get out of the kitchen quickly.” As the farm-to-table ethos has spread from fine dining down to fast food and everybody has started asking where their pork comes from, Americans are seeking out a “sensible involvement” with the things they consume, Seifer says. The kits, with their breathless blog posts about artisanal purveyors and locally grown rainbow chard, are the latest spawn of that trend.

Subscribers tend to be folks who enjoy cooking—or enjoy nicely cooked food, at least—but lack the skills or time to get there. For reluctant home chefs, the strategy is cheaper than a takeout routine; for more experienced ones, it offers a reprieve from a familiar recipe repertoire. “I really enjoy menu planning when I'm entertaining, but I don't like to do it on a daily basis,” says Kathryn Zabik, 32, a Blue Apron subscriber for more than two years. The deliveries force her to cook on weeknights, she says, “without having to build a whole pantry of spices and sauces or go to a specialty market to find the produce.”

This year, Blue Apron will ship “well above” 1 million meals monthly, Salzberg says. Plated and HelloFresh won't release numbers, but if employee head counts are any indication, they're a quarter and a tenth of the size, respectively. The newer services are even smaller, shipping fewer than 10,000 a month. Taken together, they make up a tiny slice of the almost 10 billion dinners eaten in the U.S. every month, but the companies are growing rapidly. After \$50 million in third-round funding from Stripes Group last April, Blue Apron was





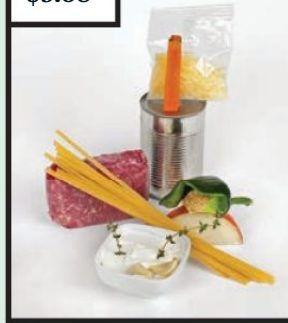

Bounty Hunting

Testing five meal kits to determine who they're right for

Sample kit

Is it good?

Clientele

Sample kit	Is it good?	Clientele
\$8.74+ 	Blue Apron Miso yuzu-glazed cod with black rice and water spinach The recipes are exceptionally thorough, but they can seem needlessly exotic. Who's heard of fresh chestnut pasta with Brussels sprouts, ghee, and poppy seeds? Many prep bowls are often required, so you better have a dishwasher.	Parents. The family plan is cheaper, with simpler, delicious recipes.
\$12+ 	Plated Spicy coconut rice noodles with kale and basil Most of the entrées are sophisticated and on-trend: Japanese noodle bowls, ingredients like harissa and kimchee. Plated has rigorous quality standards for its meats and fish, but it's also the most expensive and won't scale well for families.	Restaurant lovers without kids.
\$9.08+ 	HelloFresh Poblano Bolognese with ground beef and Parmesan An in-house dietitian helps create dinners that are generously portioned but appeal to the calorie-conscious. For adventurous eaters, the dishes—things like Parmesan-crusting tilapia and balsamic chicken—are too middlebrow.	Novice cooks who aren't comfortable using exotic ingredients.
\$11.25+ 	PeachDish Roasted chicken legs with butter beans and herbed dumplings PeachDish offers fewer new options each week, and the focus on modern Southern cooking results in a narrower range of flavors and formats. On the other hand, it's the only service that allows you to order as many as eight servings per meal.	Dinner party hosts.

"The notion of convenience is changing..."

valued at \$500 million. Food "is a sector that's been overlooked by the venture world for two decades," says Kent Bennett, a partner at Bessemer Venture Partners, one of Blue Apron's early investors. "Very shortly preceding our investment, we started to say, 'This could really transform a trillion-dollar industry.'" He's hardly alone: Last year venture capitalists funneled \$1 billion into food tech, according to research firm CB Insights. Until the bubble bursts, all of that cash is basically subsidizing dinner.

Salzberg's main pitch has to do with sending supermarkets the way of iceboxes and wood-burning stoves. "The grocery store is...not the best way to source ingredients for dinner," he says. Food retail is a \$620 billion category, says Food Marketing Institute, a grocery trade group. But supermarkets haven't evolved much since they began replacing general stores in the 1920s. Most still amass food through a

Byzantine web of distributors and wholesalers, then hope most of it will eventually get bought.

Meal-kit companies, by contrast, work directly with food producers to acquire exact quantities of particular items, in some cases at a lower cost than grocers pay. At supermarkets, as much as 40 percent of America's perishable ingredients ends up in the trash. Michael Pollan, author of *The Omnivore's Dilemma*, says this inefficiency is a major deterrent to cooking from scratch. "If you buy that head of broccoli, it's going to make you feel bad about yourself if it sits there and wilts," he says. Plated claims to reduce food waste to less than 2 percent.

The menu planners favor small farmers and quirky seasonal produce instead of commodity growers, sourcing ingredients that typically wind up in farmers markets and high-end restaurants, not grocery stores. "I don't think about what I want to cook so much as asking the farmers what they can grow for us," says Matt Wadiak,

supposedly less expensive than assembling an equivalent one from Whole Foods, but that's only because you're not buying overlarge quantities of eggs and whole jars of turmeric. Still, the average American spends \$2 to \$3 per person on a supper eaten at home, NPD says, so one costing \$10 per plate squarely qualifies as excessive.

Critics of the kits also cite the extra packaging—a plastic sleeve for a single scallion, say, or six chemical ice packs cooling a vacuum-sealed piece of salmon. What most customers can't see is the packaging and shipping that's been omitted in the chain from producer to consumer. It's possible these boxes are greener as a whole than buying groceries the conventional way, though it hasn't been studied yet. "Because we're cutting out all those steps through the supply chain," Taranto says, "I believe we're able to reduce [emissions] from farm to front door."

And that's before you adjust for food waste. After I spent a week cooking with Plated, there were none of the usual half-eaten bunches of herbs and celery wilting in my fridge, and no additions to the collection of obscure Asian sauces and hippie grains in my pantry. The price was well below what I would have spent shopping for the same costly recipes—as much as 32 percent lower, if you believe Plated's calculations. Each of the recipes was true to its time estimate and took less than 45 minutes to complete.

But even that investment may prove too onerous for all but the most dedicated cooks. A harried lawyer friend who recently tried HelloFresh appreciated the quality of the ingredients but says she couldn't handle the 30 minutes of chopping and stirring. "I think slicing an onion stands between many people's desire to cook and their ability to do it," Pollan says. Soon, maybe, these companies will go ahead and chop the veggies for you. **B**

Not just for dinner:
Blue Apron's breakfast
of chilaquiles



...it used to be 'throw something in the microwave'"

\$7.38+



The Purple Carrot

Asian quinoa salad with cabbage, carrots, and ginger

All of the 100 percent vegan meals are intended for a family, so the cost per person is steeper if you're splitting them between two people instead of four. Right now, it ships only within the eastern half of the U.S.

Vegans.



Stowaway's set includes concealer, lipstick, blush, eyeliner, mascara, and a moisturizing beauty balm

BARELY VISIBLE MAKEUP

An online-only cosmetics brand for women on the go. By Gloria Dawson

Like many professional women, Julie Fredrickson and Chelsa Crowley do their makeup as they're running around—at the office, at the gym, even applying it on the subways of New York. Often, they lug around heavy bags of full-size products that are meant to be kept on a vanity at home. "We're not doing our makeup in the boudoir," says Crowley, 33. "Women's lives have changed," adds Fredrickson, 31, "but the cosmetic industry has not changed with us."

A year ago, they began working on Stowaway, a line of smaller-size cosmetics—creamy \$15 lipsticks no bigger than a AAA battery, \$10 eyeliner the size of a

Q-tip—that they launched in February. Their six-product \$75 kit, about the size of an iPhone, fits inside any purse. In one month, Fredrickson and Crowley tripled projected sales on stowawaycosmetics.com, the only place the line is sold.

When they began fundraising, miniaturized makeup wasn't a big enough idea for most venture capitalists. But Stowaway still raised \$1.5 million from more than a dozen investors, including Gary Vaynerchuk and Marc Ecko. The company's challenge is to take "a shot across the bow" of the \$60 billion makeup industry, says Fredrickson, who previously sold an e-commerce company to PopSugar, a women's media network.

Crowley, who spent a decade working for Clinique and Bobbi Brown, brings the beauty know-how.

Manufacturing the products costs about the same as larger counterparts. But they contain fewer chemicals: By reducing package size and omitting a lengthy wholesale-to-retail chain, Stowaway can limit preservatives. And rather than merely avoiding the handful of ingredients banned in the U.S., the company adheres to rigid European guidelines, which prohibit more than a thousand substances. As of now, there are no plans for stores. But, Fredrickson says, she could easily set up shop near airport security counters. **B**

The Next Avon

Three digital companies remaking mail-order beauty



Julie.com

What started in 2007 as a few Seattle nail salons has morphed into a full beauty brand with 300 products. The company crowdsources feedback to create items like the Plié wand (\$25), a bendable brush for your nondominant hand.



Walkerandcompany.com

The five-part Bevel shave system (\$59.95) is the first product from this startup serving people of color. It helps eliminate ingrown hairs, razor bumps, and other skin irritations common among those with coarse hair texture.



eSalon.com

Upload photos, then decide on one of 9,000 at-home hair dyes (\$24.95) with the help of an online colorist consultation. Each hue is individually mixed to create the multi-dimensional quality most drugstore boxes lack.

NATURE'S CONDOM

A father-daughter team tries to beat Trojan with vegan latex

By Claire Suddath

Every day at work, Meika Hollender talks with her dad about sex. It's been happening since last July, when they started selling Sustain, a fair-trade, all-natural condom company. "There are times when I'll suggest a product, and it's, like, 'Let me tell you why this is useful,'" she says. "It can get a little awkward."

Her father is Jeffrey Hollender, the co-founder and former chief executive officer of Seventh Generation, the largest environmentally friendly paper and home-cleaning company in the U.S. For more than two decades, green condoms have been his white whale: "Do you remember back in the 1990s when Save the Rainforest was popular?" he asks. "At the same time, AIDS was in the news a lot, and I thought, Why not combine the two causes and make Rainforest Rubbers?" He approached Seventh Generation with the idea, but his senior management team decided it was too risqué.

In 2010, Jeffrey was unexpectedly fired—he says there were philosophical differences between him and the company's board—so he decided to return to his idea. There was just one problem: "I'm a 60-year-old guy. I can't go out there and talk to young women about condom use," he says. Meanwhile, Meika, 27, had just graduated from New York University's Stern School of Business and wanted to work somewhere that allowed her to focus on environmental issues and women's health.

The family invested \$1.5 million in their project, then raised \$3 million in funding so they could source sustainable latex from a family-owned rubber plantation in India that's certified by the Forest Stewardship Council. They also bought expensive recycled-cardboard packaging. They've sold their condoms to about

1,000 stores, including Whole Foods and Wegmans. Jeffrey says Sustain took in

\$500,000 during its first four months, which makes it a small player in the \$525 billion global condom market.

Sustain is the latest addition to the natural condom category, which can be traced to at least 2007, when the British company French Letter began using fair-trade rubber. They compete with Colorado-based Sir Richard's Condom, Germany's Einhorn Condoms, and L Condoms, which delivers its all-natural rubbers by bike messenger in San Francisco and New York. Unlike most of the competition, Sustains are made without the milk protein casein, so they're vegan-friendly. They're as durable as standard ones. But they aren't cheap—a pack of 10 costs about \$14.

To stand out in the crowded space, the Hollenders are marketing their product

exclusively to women. Condoms obviously benefit them, but in the U.S. they're mostly advertised to men.

Trojan, which accounts for 75 percent of all condom sales, according to market-research firm IRI, relies on the superhero-esque Trojan Man character, who supplies condoms to excited man-boys. Its main competitor, Durex, usually goes the steamy route, with darkly lit commercials filmed in nightclubs. "They're telling guys to carry it like a badge of honor," says Barbara Kahn, a professor of marketing at the Wharton School. "Women aren't part of the conversation. For them, the idea of carrying a condom is embarrassing."

According to the U.S. Centers for Disease Control and Prevention, condom use has declined over the past 20 years—only 16 percent of women who have sex use one. Instead, most rely on birth control pills or other hormonal methods for contraception, although none of those protect against sexually transmitted infections.

To win women back, Sustain comes in a demure teal package with pictures of pebbles, bamboo, or sea animals on

it. "If you put them in your shopping cart, people won't necessarily know what you're buying," Meika says. They're not too feminine, either; men might appreciate a less cheesy, more discreet option, especially if they buy into the bonus environmental messaging.

"There aren't that many women out there who're searching for all-natural condoms," Jeffrey says. "Well," Meika interrupts, "not yet." **E**



Sustain's low-key packaging

THE PRETTIEST PLACES OFF THE GRID

Remote islands, country resorts, and other disconnected destinations will force you to relax. By Maridel Reyes



A cabin overlooking the Russian River

Jenner, California

About two hours north of the Golden Gate Bridge, the River's End Restaurant & Inn (ilovesunsets.com; starting at \$239 per night) is perched on a bluff overlooking the Russian River where it enters the Pacific Ocean. The adults-only cabins—originally built in 1927 for loggers—have no cell service, Wi-Fi, or cable. A fireplace and private deck provide all the



Flying into Lizard Island

Lizard Island, Australia

Reopening this March after a \$50 million renovation following last year's devastating Cyclone Ita, Lizard Island (lizardisland.com.au; capacity of

80 guests, and limited cell reception and Internet access. Fly into Cairns from any major Australian city and take a 60-minute private plane (\$630 per

person) to the isle. **Fill the time:** Dive and snorkel in the reef directly offshore, or take an hour boat ride to the Great Barrier Reef (snorkeling from \$137). Ask the staff to pack a free picnic of king prawns, heirloom tomato salad, and local sauvignon blanc to take on a private dinghy to a secluded beach.

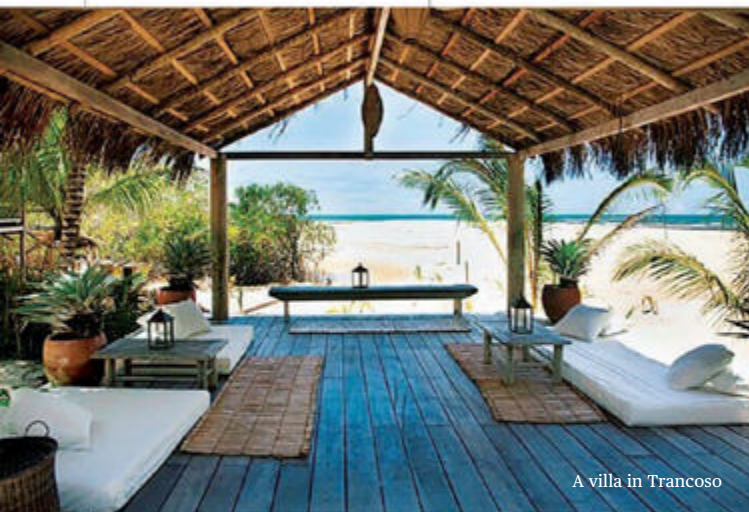
per night); the resort owns seven other villas, hidden in a lush private garden. The whole place gives off a bohemian vibe that's been likened to Saint-Tropez in the 1950s. **Fill the time:** Lounge in the hotel's dazzling swimming pool, lined with 45,000 green aventurine quartz crystals that locals say have healing powers. The beach club—with its delicious caipirinha cocktails—is a short walk away. Take capoeira lessons (\$35), rent a sea kayak (\$70), or play pickup beach volleyball with the locals.

Little St. Simons Island, Georgia

This private barrier island can be reached only by

Trancoso, Brazil

Anderson Cooper and Matthew McConaughey have both escaped to this fishing village in southern Bahia. Fly into Porto Seguro, then take a 45-minute jeep ride through beachy jungle to arrive at Trancoso's main square, surrounded by colorful wooden *casas*. Four of these low-rise fisherman's houses belong to the UXUA Casa Hotel & Spa (uxua.com; starting at \$418



A villa in Trancoso

entertainment you'll need. **Fill the time:** Drive about 15 minutes south to sip pinot noir (\$15) at the Fort Ross Vineyard Tasting Room. Or take a 25-minute trip to stroll through Armstrong Redwoods State Park.

starting at \$1,015 per night for two, all-inclusive) is one of few resorts adjacent to the Great Barrier Reef. Accessible only by light aircraft, the island has 24 untouched white sand beaches, a maximum

Georgia's Hampton River





A jungle villa with a plunge pool in Costa Rica

Etc.

River Camp (duntonrivercamp.com; starting at \$1,400 per night for two, all-inclusive). As soon as you're 20 minutes from Dunton, cell service drops off. The former cattle ranch from the late 1800s sits on 500 acres of fields and forests. The

exercising with a free soak at the secluded Dunton Hot Springs, 4 miles away.

Laucala Island, Fiji

Following a change of ownership, the private island resort has been revamped to make it more secluded. There are 25 thatched villas (laucala.com; starting at \$4,600 for two per night, all-inclusive) scattered among coconut plantations and deserted beaches—80 percent of the island is undeveloped. The resort, on the northern coast, has a pampering staff-to-guest ratio of 5 to 1. To get there, fly in the property's private plane from Nadi

airport (\$600). **Fill the time:** Take a ride in the resort's DeepFlight Super Falcon mini submarine, which dives 1,500 feet deep, using "wings" to fly through the water like a sea creature. (It's safe.) Back on land, visit

a 15-minute ferry ride down the Hampton River. You'll land at the Lodge on Little St. Simons Island, which has 32 cottages without telephones and TVs (littlesimonsisland.com; starting at \$450 per night for two, all-inclusive). Take in glistening marshes and 7 miles of undisturbed beaches, or just relax with a book beneath mossy oaks. **Fill the time:** Swim in the mild surf, fish from the dock, or seine for shrimp and crab. The resort, which is on the Atlantic Migratory Flyway, is ideal for birders. Sign up for a complimentary expedition to see a bald eagle or one of 280 other species that pass by.

Nayara Springs, Costa Rica

Fly into San José and take a three-hour car ride (\$304) to Nayara Springs (nayaraspings.com; starting at \$590 for two, includes breakfast). To check in, you have to cross a footbridge over a stream, a prime spot to catch a glimpse of toucans and hummingbirds. Each open-air jungle villa has its own garden and a plunge pool fed by mineral hot springs. The only thing you'll see out the window is rain forest and the looming, active Arenal volcano.

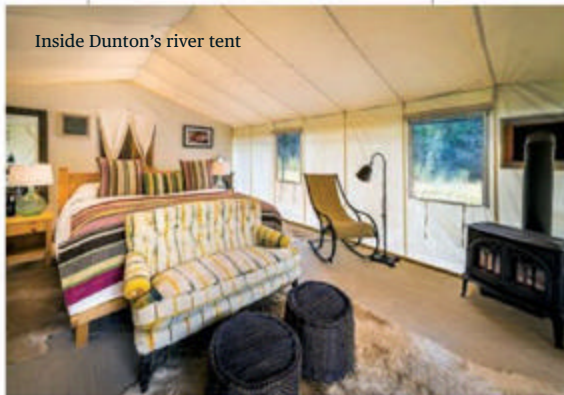
Fill the time: Book a three-night digital detox package (\$2,089 for two) and agree to leave your phone, tablet, and laptop in a safe during your stay. You'll be scheduled for yoga in the morning, meditation classes, and couples' spa treatments.

Dunton, Colorado

Fly into Durango or Telluride and drive two hours to Dunton

accommodations, eight luxury tents, are only 20 feet from the rolling Dolores River.

Inside Dunton's river tent



Fill the time: Go horseback riding (\$190 for one hour), or take complimentary mountain bikes on trails through the Rockies. Reward yourself for

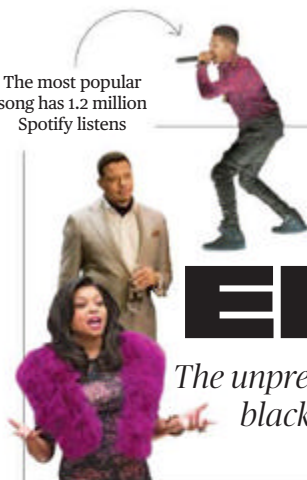
one of the few traditional villages left in Fiji, where you can try arts and crafts such as weaving, carving, and Masi art. (All activities are included in the resort fee.)



A pool and residence fronting a Fijian private beach

The most popular song has 1.2 million Spotify listens

The Critic



EMPIRE'S EMPIRE

The unprecedented audience of Fox's breakout black soap opera. By Claire Suddath

More viewers than the finale of *Lost*

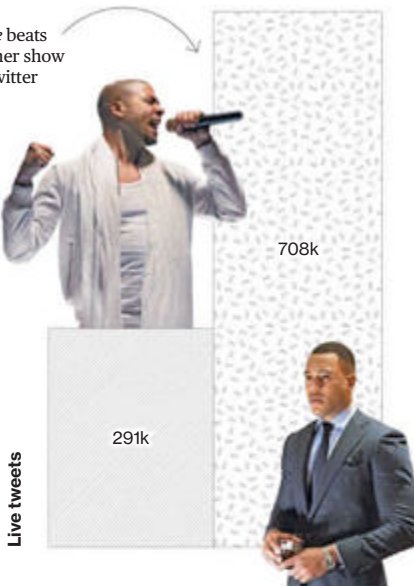
Last fall, while CBS, NBC, and ABC were trumpeting year-over-year gains for their slate of shows, Fox was dying. Only one of its new programs—*Gotham*—had gained any traction, and total viewership was down 30 percent from 2013. Most executives didn't expect much from the Jan. 7 premiere of *Empire*, a musical drama about a dying rap mogul who pits his three sons against each other to see who will inherit his enterprise. "We knew that...it would be a challenge for it not to be seen as just a hip-hop show or just a soap opera," says Joe Earley, chief operating officer of Fox's TV Group.

Now *Empire* has become the network's biggest hit in years. Ten million people watched the premiere, and that's grown to 14 million per episode in two months. As of March 4, it's the only TV show that's increased its audience nine episodes in a row, at least since Nielsen began tracking in 1991. It's also the most-played show on Comcast's on-demand portal. In early March, Steve Levitan—creator of *Modern Family*, TV's last megahit—jokingly asked Fox to stop playing its show on the same night as his.

Unlike other network dramas, *Empire* (which airs on Wednesdays at 9 p.m.) is most successful with black viewers; half of the premiere's audience was black, and that's since grown to about two-thirds, according to Nielsen. It's also the top new show among women. And, surprisingly, among men ages 18 to 49. Just shy of half the audience is male. "That's not common for a show that's a soap," Earley says.



Empire beats every other show on Twitter



Initially, he adds, Fox marketed it to black fans, the LGBT community, and women who watch daytime soaps. But lately the show's been cresting in areas with large Hispanic audiences, such as Texas, likely because it veers on being a *telenovela*.

In early March, it dethroned *Scandal* as the top show on social media, where *Empire* is celebrated as top-notch trashy TV. It helps that the plots are hyper-topical—episodes often feel like a thinly veiled version of the Beyoncé-Jay Z story, elevator fights and Gucci clothes included. The most compelling story line is between patriarch Lucious Lyon (played by Terrence Howard) and his gay son, Jamal (Jussie Smollett). Lucious disapproves of Jamal's sexuality and thinks it will hurt his company if his son comes out. Jamal turns to his mother, Cookie (Taraji P. Henson, the show's best actor), but her support takes the form of a marketing plan to turn her son into hip-hop's first openly gay star.

Profit is driving it all, onscreen and off. Hollywood director Lee Daniels (*The Butler*), who produces the show, originally envisioned the *King Lear*-ish script as a film. He only turned to TV, he says, because he "wanted to make money for once." Too bad Fox undersold the show: Thirty-second spots during *Empire*'s first season went for \$140,000, about half of what it gets for the less popular *American Idol*.

The music's also not yet minting much. New tracks are released by Columbia Records for free on Spotify. But so far, none of them are radio hits. That's because Jim Beanz, a protégé of the producer Timbaland, writes them to fit plot points. "They tell me what the scene is about, then I send it to Fox, which checks to make sure the lyrics aren't too on the nose," he says. This being network TV, Fox isn't too concerned with nuance: The closeted Jamal sings a song called *Tell the Truth*—while crying. Smollett is the best singer on the show, so the music's failings aren't his fault. Late last month, he signed an independent, non-*Empire* contract with Columbia. Someone there should write him less weepy material. **B**

READ, SKIM, SKIP

CASH IS KING

READ



The Thin Green Line
By Paul Sullivan

It's fascinating and annoying to read about rich folks. Rather than function as wealth porn, this book looks at how people with lots of money exercise self-control. Just as you bore of their piousness, it switches focus to those who love to spend. Fun!

SKIM



Coined
By Kabir Sehgal

Sehgal, an investment banker and U.S. Navy officer, is clearly smart, but his history of currency is often boring. Read the beginning, about how bacteria exchange capital. Then skip to the end to learn about the future of mobile payments.

SKIP



American Made
By Dan DiMicco

Given the past decade's obsession with offshoring and heritage U.S. goods, it's sort of amazing this book title wasn't taken. It's also amazing that this glorified PowerPoint presentation—bland charts and all—was chosen to be published at all.

What's

Time Equities?

A real estate investment company. We own about 20 million square feet of properties, around 200 buildings, in 25 states, Canada, and Germany.

How'd you get into real estate?

I founded the company when I was 16, when I rented a two-room office for a fledgling business. I sublet the other room for twice the rent and thought, "Well, this is easier than my business."

What do you pick out first?

My shirt. I have these in white, turquoise, pink, purple, and blue.

BROOKS BROTHERS

How do you choose outfits?

I consider the environment. Yesterday I toured a women's prison and decided I shouldn't wear a bow tie.

PAUL STUART

What's your look?

Cheerful. Not all the issues I deal with are cheerful—they're not—but I'm conscious of how my dressing might affect people.

UNIQLO

Do you usually wear bow ties?

I've been wearing them for the past 30 years. They're more convenient than having something hanging. I own 40.

Your vest really pops.

I have them in six colors and wear them almost every day. They adjust to the temperature more than a sweater.

What's your shoe approach?

I have flat feet. Laced shoes are better than loafers for people who have foot issues.

ALLEN EDMONDS

FRANCIS GREENBURGER

66, founder, chairman, and chief executive officer, Time Equities, New York



FREDA LEWIS-HALL

Chief medical officer and executive vice president, Pfizer

With her
parents on
graduation
day



"My dad drove a cab, and my mother was a secretary for the government. As a poor African American girl in the 1960s, when I said, 'I wanna be a doctor,' they didn't flinch."

"My first year, my husband was diagnosed with cancer, and my mother died suddenly of a stroke."



Lewis-Hall, left, on PBS's *Urban Health Report* in 1991

"A lot of people don't realize that pharmaceutical companies do a lot of research on drugs that are already in the market."

"My role is to ensure the safe, effective, and appropriate use of every Pfizer medicine and vaccine—from first use in human trials to last use. I think of it as an opportunity to serve in a broad way."



At the Apollo Theater in 2011

Education

Annapolis Senior High School, Maryland, class of 1973

Johns Hopkins University, class of 1976

Howard University College of Medicine, class of 1980



"A school counselor suggested that I marry well. My mother said, 'I'll take care of her tomorrow, but tonight, we're gonna get you into college.'"

Work Experience

1981–84
Psychiatry resident, Howard University Hospital

1984–86
Acting medical director and community psychiatrist, U.S. Virgin Islands Department of Health

1986–94
Department vice chair, Howard University College of Medicine

1994–2002
Director, Lilly Center for Women's Health, Eli Lilly

2002–03
Vice president for product development, Pharmacia

2003–08
Senior vice president, Bristol-Myers Squibb

2008–09
Chief medical officer and executive vice president, Vertex Pharmaceuticals

2009–Present
Chief medical officer and executive vice president, Pfizer

"No one thought of a physician taking an industry job—it was floating upstream."



Appearing on *Dr. Phil* in 2013



"The CEO of Pfizer—the world's largest pharmaceutical company—reached out. I had a hard time saying no."

Life Lessons

1. "People do not change when they see the light. They change when they feel the heat."
2. "Don't ask, 'What should I do next?' Ask, 'What do I want to do last?'"
3. "If something seems out of reach, move closer."





Rush hour in Gili Trawangan.

The first thing you notice is the silence. Waves gently lapping against an outrigger instead of traffic, horns and jackhammers. For centuries, there wasn't even a footprint on the pristine white sands of the Gili Islands off Lombok. Here, a different pace of life beckons. It's time to take some time out. We fly to 14 destinations in Indonesia over 160 times a week.



A STAR ALLIANCE MEMBER



